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No. 89-1500-CFX  
Status: GRANTED

Title: Business Guides, Inc., Petitioner  
v.  
Chromatic Communications Enterprises, Inc. and  
Michael Shipp

Docketed:  
March 21, 1990

Court: United States Court of Appeals  
for the Ninth Circuit

Counsel for petitioner: Bomse, Stephen V.

Counsel for respondent: Shapiro, Neil L.

NOTE: See mail label re dock dt

Entry	Date	Note	Proceedings and Orders
1	Mar 21 1990	G	Petition for writ of certiorari filed.
2	Apr 25 1990		DISTRIBUTED. May 10, 1990
3	May 2 1990	F	Response requested -- TM.
4	Jun 1 1990		Brief of respondents Chromatic Communications Enterprises, Inc., et al. in opposition filed.
5	Jun 5 1990		REDISTRIBUTED. June 21, 1990
6	Jun 25 1990		Petition GRANTED. *****
8	Jul 24 1990		Order extending time to file brief of petitioner on the merits until August 20, 1990.
9	Aug 20 1990		Brief amicus curiae of Public Citizen filed.
10	Aug 20 1990		Brief of petitioner Business Guides, Inc. filed.
11	Aug 20 1990		Joint appendix filed.
12	Sep 14 1990		Record filed.
		*	Certified copy of C. A. proceedings, volumes I & II, received.
13	Sep 20 1990		Brief of respondents Chromatic Communications Enterprises, Inc., et al. filed.
14	Sep 26 1990		CIRCULATED.
15	Oct 19 1990		SET FOR ARGUMENT MONDAY, NOVEMBER 26, 1990. (2ND CASE)
16	Oct 23 1990	X	Reply brief of petitioner Business Guides, Inc. filed.
17	Nov 20 1990		Record filed.
		*	Certified copy of original record received.
18	Nov 26 1990		ARGUED.

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Supreme Court, U.S.  
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CLERK

No.

# In the Supreme Court

OF THE

## United States

OCTOBER TERM, 1989

BUSINESS GUIDES, INC.,  
*Petitioner,*

VS.

CHROMATIC COMMUNICATIONS ENTERPRISES, INC.  
and MICHAEL SHIPP,  
*Respondents.*

**PETITION FOR A WRIT OF CERTIORARI TO  
THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT**

STEPHEN V. BOMSE  
Counsel of Record

STEPHEN N. GOLDBERG

JOSHUA R. FLOUM

HELLER, EHRMAN, WHITE &  
MCAULIFFE

333 Bush Street

San Francisco, CA 94104

Telephone: (415) 772-6000

*Attorneys for Petitioner*

**I**

**QUESTION PRESENTED**

Under Federal Rule of Civil Procedure 11, may a represented party be sanctioned for submitting erroneous information to the district court when it believed, in good faith, in the accuracy of such information based on an examination of its business records?

## II

## PARTIES

In addition to the parties named in the caption, pursuant to Rule 28.2 petitioner identifies the following parties which may have an interest in the outcome of the petition: Lebhar-Friedman, Inc. (parent of petitioner); Chain Store Publishing Corp. (corporate affiliate of Lebhar-Friedman, Inc.); and Largo Music, Inc. (corporate affiliate of Lebhar-Friedman, Inc.).

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OCTOBER TERM, 1989

BUSINESS GUIDES, INC.,  
*Petitioner,*

VS.

CHROMATIC COMMUNICATIONS ENTERPRISES, INC.  
and MICHAEL SHIPP,  
*Respondents.*

### PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Petitioner respectfully requests that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Ninth Circuit in this case.

#### OPINIONS BELOW

The February 16, 1990 decision of the United States District Court for the Northern District of California is reprinted at Pet. App. 1a-2a. The December 21, 1989 opinion of the United States Court of Appeals for the Ninth Circuit is reported at 892 F.2d 802 and is reprinted in the appendix to this petition at Pet. App. 3a-26a. The August 5, 1988 decision of the United States District Court for the Northern District of California is reported at 121 F.R.D. 402 and is reprinted at Pet. App. 27a-34a. The April 12, 1988 decision of the United States District Court for the Northern District of California is reported at 119 F.R.D. 685 and is

reprinted at Pet. App. 35a-46a. The September 14, 1987 Magistrate's revised report and recommendation is reprinted at Pet. App. 47a-63a. The April 3, 1987 Magistrate's report and recommendation is reprinted at Pet. App. 64a-81a.

### JURISDICTION

The judgment of the Court of Appeals was entered on December 21, 1989. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

### RULE INVOLVED

The Federal Rule of Civil Procedure involved herein is Rule 11, which provides in pertinent part:

Every pleading, motion, and other paper of a party represented by an attorney shall be signed by at least one attorney of record in the attorney's individual name, whose address shall be stated. A party who is not represented by an attorney shall sign the party's pleading, motion, or other paper and state the party's address. . . . The signature of any attorney or party constitutes a certificate by the signer that the signer has read the pleading, motion, or other paper; that to the best of the signer's knowledge, information and belief formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law, and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation. If a pleading, motion, or other paper is signed in violation of this rule, the court, upon motion or upon its own initiative, shall impose upon the person who signed it, a represented party, or both, an appropriate sanction, which may include an order to pay to the other party or parties the amount of the reasonable expenses incurred because of the filing of the pleadings, motion, or other paper, including a reasonable attorney's fee.

(As amended Apr. 28, 1983, eff. Aug. 1, 1983).

## STATEMENT OF THE CASE

### A. Summary of the Legal Issue Presented

Petitioner Business Guides, Inc. was sanctioned by the district court under Rule 11 for submitting erroneous information in connection with its prosecution of an action for copyright infringement. Business Guides concededly made a mistake; it relied on the accuracy of a business record which, it subsequently became apparent, was inaccurate. But there also is no dispute that its mistake was an honest one; Business Guides had no intent to mislead the Court or submit erroneous evidence.<sup>1</sup> Nonetheless, the district court held, and the Ninth Circuit affirmed, that such good faith does not preclude a represented party from being sanctioned under Rule 11. Specifically, the court below held that the "objective" standard of reasonableness applicable to attorneys should be applied, as well, to represented parties. That holding frames the issue presented by this petition: namely, whether in light of the policies underlying Rule 11, a party may be sanctioned even though it indisputably has acted in good faith. As to that issue there is a direct conflict between the decision of the Ninth Circuit in this case and the decision of the Second Circuit in *Calloway v. Marvel Entertainment Group*, 854 F.2d 1452 (2d Cir.), *rev'd in part on other grounds sub nom. Pavelic & Leflore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989).

The issue bears consideration by this Court. Rule 11 has become one of the most important of the Federal Rules as the

<sup>1</sup> As explained more fully at pp. 10-12 *infra* the court (or to be precise, a Magistrate to whom the matter was referred) originally held to the contrary. The Magistrate initially found both Business Guides and its former counsel guilty of intentional deception. However, after Business Guides obtained new attorneys who were able to explain to the court what actually happened, the Magistrate expressly vacated his finding of bad faith. He nonetheless sanctioned Business Guides for having been careless in filing and prosecuting its suit for copyright infringement. It is that finding, affirmed both by the district court and, thereafter, by the Ninth Circuit, which forms the basis for the present petition.

increase in complex litigation and its unquestioned potential for abuse have led courts to scrutinize the conduct of such litigation with greater care. Rule 11 has become a critical mechanism for policing litigation abuse. At the same time, however, the very potential for sanctions under Rule 11 is, itself, capable of tactical misuse—a point which a number of courts and commentators have noted with apprehension. See, e.g., *Operating Engineers Pension Trust v. A-C Co.*, 859 F.2d 1336 (9th Cir. 1988); Snyder, *The Chill of Rule 11*, 11 Litigation (Winter 1985). Rule 11 sanctions have the potential to chill the assertion of legitimate claims as well as deterring misconduct. A line must carefully be drawn, therefore, which accomplishes the latter, but not the former.

That line, we submit, is the one drawn by the Second, not the Ninth, Circuit. The role of Rule 11 is different in regard to lawyers and their clients. As officers of the court, trained and licensed as to their professional competence, it is entirely appropriate to hold counsel to a baseline standard of (objective) competence in the prosecution or defense of litigation. Thus, it is perfectly appropriate to apply a standard of objective reasonableness to their conduct, as the cases under Rule 11 indisputably require. E.g., *Zaldivar v. City of Los Angeles*, 780 F.2d 823 (9th Cir. 1986); *Eastway Constr. Corp. v. City of New York*, 762 F.2d 243 (2d Cir. 1985), *cert. denied*, 484 U.S. 918 (1987).

The same is not true of parties who, in good faith, choose to bring litigation or who—in the course of such litigation—assert the existence or accuracy of certain facts, believing those assertions to be true, even though they are not. Certainly it is appropriate to sanction anyone who knowingly misuses the litigation process; but to sanction a party who believes—even if erroneously—that what he or she has said to the court is true crosses over the line which divides a legitimate concern for litigation abuse from excessive deterrence of potentially legitimate claims. Put otherwise, having an “empty head” in the case of a client should not offend the Federal Rules.<sup>2</sup>

<sup>2</sup> Nor, as we explain *infra* is there a need to employ Rule 11 to protect other parties as opposed to the litigation process. Those parties have the

There is good reason for granting the writ in this case even beyond the traditional ground that it involves a direct conflict between the circuits on a significant issue of law. In the past two terms this Court has agreed to review two cases raising important issues of attorney responsibility under Rule 11, *Pavelic & Leflore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989) and *Danik, Inc., v. Hartmarx Corp.*, 875 F.2d 890 (D.C. Cir.), *cert. granted sub nom. Cooter & Gell v. Hartmarx Corp.*, \_\_\_ U.S. \_\_\_, 110 S. Ct. (1989). Those cases test the limits of Rule 11 as, in a different way, does this one. While this Court must, of course, be the arbiter of its own docket, petitioner submits that, particularly in light of the conflict among the circuits, this case is a useful complement to *Pavelic & Leflore* and *Cooter & Gell* in defining the scope and limits of Rule 11 in an important respect.

## B. Statement of Facts

Business Guides is a subsidiary of Lebhar-Friedman, Inc., a publisher of trade journals and magazines in the United States. Since 1983, Business Guides has published a directory of computer products and services. Since approximately 1985, respondent Chromatic Communications Enterprises, Inc. has published a similar directory. Both publications list the name, address and telephone numbers of computer store and software retailers in the United States, together with a brief description of each business.

Directories such as those published by Business Guides are laborious to compile, but relatively easy to copy. Thus, as a means of detecting copying by its competitors, Business Guides intentionally plants incorrect information, known as “seeds”, in its directories. The use of such “seeds” is common among publishers

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ability to seek relief through the common law torts of abuse of process and malicious prosecution. In fact, to the extent that the holding below purports to create a new “Rule 11” tort, or—even more plainly—establishes a basis for sanctions which extends beyond the common law principles governing abuse of process or malicious prosecution, a serious question is raised under the Rules Enabling Act, 28 U.S.C. § 2072, and the Constitution. See, e.g., *Sibbach v. Wilson & Co., Inc.*, 312 U.S. 655 (1941), See also pp. 21-22, *infra*.

of directories and atlases. Business Guides uses two types of seeds. "Type A" seeds are entirely fictitious listings, i.e., businesses which do not exist at all. "Type B" seeds, on the other hand, are partially altered listings which contain minor errors such as transposed numbers in an address or zip code or misspelled names. The appearance of one or more seeds in a competitor's publication is considered strong evidence of copyright infringement.

In the normal course of its business, Business Guides compiles and maintains "master seed lists" for each type of directory it publishes. These documents identify each of the Type A and B seeds which appear in particular directories. Normally, the seed list is prepared prior to publication and the seeds are intentionally inserted just before final printing. However, due to a concern that its 1984 computer directory did not contain enough seeds, Business Guides created its 1984 master seed list in a unique and—with hindsight—ill-advised fashion.

Specifically, Business Guides directed one of its employees, Victoria Burdick, to identify a new form of "after-the-fact" Type B seed; to wit, a list of unintentional typographical errors actually printed in the final version of the directory. To locate such errors, the employee compared the final 1984 directory against the initial information sheets (or questionnaires) used by Business Guides to gather information from the to-be-listed companies. When she found a disparity between the information listed in the questionnaires and the final directory, she recorded the discrepancy on the master list as a Type B seed. This approach, however, was unknowingly based on an incorrect premise. Ms. Burdick assumed that the erroneous information on the questionnaires was correct. In fact, the information on the questionnaires frequently had been revised by other Business Guides employees in the proofreading stage but without correcting the questionnaires themselves. Thus, the 1984 Master Seed List of purported errors actually contained numerous Type B seeds which were in fact *accurate*. The presence of similar listings in competitor's directories would therefore be consistent with independent research and would not establish any copyright infringement of Business Guide's directory.

The foregoing facts were, however, unknown to Business Guides at the time it filed the instant action. The findings of the magistrate and district court acknowledge that Business Guides did not understand the significance of the faulty preparation of the 1984 seed list until new counsel explained it to representatives of the company and thereafter to the court, long after the original lawsuit had been filed. Pet. App. 57a. Thus, however misdirected its efforts may ultimately have turned out to be, Business Guides did not know or suspect that this particular business record contained errors. It relied in good faith on its accuracy in commencing the underlying action.

Business Guides first suspected that Chromatic may have been copying its computer directory in 1985 due to the appearance of a so-called Type A seed from the 1984 master seed list in respondent's 1985 directory.<sup>3</sup> In 1986, respondent published a diskette version of its computer directory. That publication contained eight additional Type B seeds found on the 1984 master seed list, and one Type B seed from the 1985 master seed list.

Business Guides thereupon contacted its copyright counsel, the former law firm of Finley, Kumble, Wagner, Heine, Unterberg, Manley, Myerson & Casey ("Finley Kumble") and relayed to it the information regarding the appearance of ten "seeds" in respondent's directory. Finley Kumble did not request that Business Guides explain to it the specific inaccuracies in the ten listings which made them "seeds", nor did it suggest that Business Guides attempt to verify the information contained in the master seed lists or other business records. To the contrary, Finley Kumble advised petitioner that it had meritorious grounds to proceed with a lawsuit against respondent. Accordingly, Business Guides authorized, and Finley Kumble prepared and filed, a complaint for copyright infringement, conversion and unfair competition, together with an application for a temporary restraining

<sup>3</sup> That seed, "NFR Computer Room" was an entirely fictitious company, created from the initials of the daughter of one of Business Guides' employees (Nicole F. Rossini), the listed address actually was that employee's home address.

order seeking to prevent respondent from marketing its directory. That complaint was filed on October 31, 1986.

A hearing on the TRO was scheduled for November 7, 1986. Three days before the hearing, the district judge's law clerk telephoned Finley Kumble to request details regarding the incorrect information in each of the ten entries listed as "seeds".<sup>4</sup> Finley Kumble then contacted Michael Lambe, a mid-level manager who had not been involved in preparing the after-the-fact 1984 Master Seed List, and requested the additional information from him. This was the first time Finley Kumble asked for details about the ten seeds.

In an effort to respond to his counsel's inquiry, Mr. Lambe reviewed the 1984 Master Seed List and provided Finley Kumble with the requested details as they appeared on that document. In addition, *entirely on his own initiative*, Mr. Lambe attempted to verify the information contained on the seed list by checking subsequent Business Guides publications and zip code directories. As a result of his inquiries, Mr. Lambe had uncertainty about four of the seeds and he instructed Finley Kumble to withdraw them. Mr. Lambe verified three of the other seeds. He was unable to verify the remaining three seeds but testified that he felt no reason to doubt them. Mr. Lambe's continuing belief in the accuracy of the seed list was due in part to the fact that one of the remaining seeds was the Type A (wholly fictitious) NFR Computer Room seed which, to Mr. Lambe's knowledge and belief, could not have been included in defendants' publication in the absence of outright copying. His belief in the basic soundness of the "seeding" process was also supported by the fact that the company recently had relied on it to find copying by a subsidiary of Xerox which, when confronted with Business Guides' evidence, consented to an injunction.<sup>5</sup>

<sup>4</sup> For reasons which remain inexplicable, Finley Kumble had not bothered to include that basic information in the papers it prepared on behalf of its client.

<sup>5</sup> As discussed further, *infra*, both the magistrate and the district court found Mr. Lambe's reliance on the unchecked seeds unreasonable in view of the fact that his efforts had drawn other seeds into question. But

Finley Kumble took the information provided by Mr. Lambe and put it into the form of a supplemental declaration which it submitted to Mr. Lambe for his review. That declaration was not given to Mr. Lambe until the morning of the November 7 TRO hearing, at which point he was told that it was urgent that he sign and return the document immediately. Mr. Lambe thus had only one or two hours to review the declaration drafted by counsel. He not only reviewed, but modified the declaration further.<sup>6</sup> He then signed it, believing in good faith in its accuracy. However (as proved dispositive in the opinion of the district and circuit courts), Mr. Lambe did not personally telephone the listed businesses to verify the remaining seeds listed in his supplemental declaration.

The district court's law clerk, on his own initiative, did just that. Due in part to the fact that the record had been sealed and to apparent uncertainty on his part as to whether Chromatics' attorney would have an opportunity to respond to the sealed TRO papers, the law clerk telephoned the companies listed in the remaining six seeds. In so doing, he concluded that five additional seeds actually contained correct information. As a result of this independent discovery, the district court refused oral argument, denied the TRO application, stayed all proceedings (including discovery) and referred the matter to a magistrate for a determination as to whether Finley Kumble and/or Business Guides should be sanctioned under Rule 11.

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even conceding that it may have been careless of him to so rely, the issue remains whether the purposes of Rule 11 are served by imposing sanctions against him (or, more precisely, his employer) in such circumstances. He was not trying to mislead anyone. In fact, the record is not disputed that he only discovered the errors he did locate because he had decided on his own initiative to check information in the original court papers.

<sup>6</sup> Of the four seeds Mr. Lambe questioned and asked to have withdrawn, Finley Kumble still included one in the declaration drafted for his signature. Mr. Lambe, concerned with not misleading anyone, refused to sign it without a further deletion. Thus, the declaration, as signed, actually showed one of the seeds crossed out in ink. See CR 54:9-10.

The magistrate conducted three separate evidentiary hearings on the Rule 11 issue. At the first two, and despite a seemingly obvious conflict, both Finley Kumble and Business Guides were represented by the same counsel, who contended that the factual errors contained in Mr. Lambe's supplemental declaration were merely coincidental. Following those two hearings, on April 3, 1987, the magistrate issued a report recommending that both Business Guides and Finley Kumble be sanctioned under Rule 11 and that a partner in the law firm be subject to further disciplinary proceedings. In his report, the magistrate stated that he doubted the good faith of the parties' representations, since he found it incredible that the factual errors in the Lambe declaration could be attributed to mere coincidence.

Business Guides then retained its present counsel, who undertook an entirely new investigation, as a result of which Business Guides filed objections to the magistrate's report. For the first time new counsel for Business Guides brought to the court's attention the fact that all of the problems in the evidence could be traced to the faulty methodology used (unknown to Mr. Lambe) in preparing the 1984 Master Seed List. Based on this new evidence the Magistrate granted the application for a new hearing and on June 9, 1987, conducted a third evidentiary hearing at which the full story was finally presented. The magistrate then issued a revised report and recommendation in which he stated that he no longer believed that Business Guides or its counsel took part in any intentional misrepresentation or cover-up. *Business Guides v. Chromatic Communications Enterprises, Inc.*, 119 F.R.D. 685, 687 (N.D. Cal. 1988). Pet. App. 40a. The magistrate also found that Business Guide's lawsuit was not "interposed for any improper purpose." Pet. App. 53a.

Despite his revised finding that Business Guides had acted in good faith, the magistrate nonetheless recommended that Business Guides be sanctioned on three separate grounds: first, for filing the underlying lawsuit based on the inaccurate 1984 master seed list; second, for submitting Mr. Lambe's supplemental declaration without a "telephone check" of the information contained in the seed list; and third, for presenting the "coincidence" argument to the magistrate at the first two evidentiary hearings.

The district court adopted the magistrate's findings and recommendations, unsealed the record and invited respondent to seek specific monetary and other sanctions. *Business Guides v. Chromatic Communications Enterprises, Inc.*, 121 F.R.D. 402 (N.D. Cal. 1988). Pet. App. 27a-34a. After briefing by both sides (but without permitting oral argument) the district court imposed sanctions against Business Guides in the amount of \$13,865.66 and dismissed its entire lawsuit (prior to any discovery) with prejudice.<sup>7</sup>

In its decision dated December 21, 1989, the Ninth Circuit affirmed in part, reversed in part, and vacated in part the district court's decision and remanded the case for further proceedings. The Ninth Circuit held that Rule 11 applies only to signed pleadings or other papers and thus could not apply to the arguments presented to the magistrate at the first two evidentiary hearings. However, the Court affirmed the imposition of sanctions against Business Guides for failing to conduct an objectively reasonable prefiling inquiry about the accuracy of the 1984 Master Seed List as well as for the errors contained in Mr. Lambe's supplemental declaration.

In rendering its decision, the Ninth Circuit expressly rejected petitioner's reliance on the leading case of *Calloway v. Marvel Entertainment Group*, 854 F.2d 1452 (2d Cir.), *rev'd in part on other grounds sub nom. Pavelic & Leflore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989), in which the Second Circuit held that while an objective standard of reasonable inquiry applies to the conduct of attorneys under Rule 11, a subjective (i.e. "good faith") standard of reasonableness applies to represented parties.

In rejecting the Second Circuit's standard, the Ninth Circuit stated that whether the objective or subjective standard applies to parties is "purely a legal matter" and was a matter of "first

<sup>7</sup> By this time, Finley Kumble had filed for bankruptcy, and respondent had withdrawn that part of its Rule 11 motion seeking sanctions from the law firm. Accordingly, neither the district court nor the court of appeals decided whether sanctions were appropriate as against Finley Kumble.

impression" in the Ninth Circuit. *Business Guides v. Chromatic Communications Enterprises, Inc.*, 892 F.2d 802, 808 (9th Cir. 1989). Pet. App. 13a, 15a. Based in large part on policy arguments and its reading of the Advisory Committee Notes to Rule 11, the Ninth Circuit held that "an objective standard applies to lawyers and represented parties alike." *Id.* at 812. Pet. App. 21a. The Court then affirmed the district court's determination that *Business Guides* failed to conduct an objectively reasonable inquiry before filing (1) the original complaint and (2) Mr. Lambe's supplemental declaration.<sup>8</sup>

### REASONS FOR GRANTING THE PETITION

Since its amendment in 1983, practice under Rule 11 has become a cottage industry of the litigation bar. In 1988, Judge William W. Schwarzer of the Northern District of California estimated that over six hundred decisions enforcing or interpreting Rule 11 had been reported in the five years since the 1983 amendment. Schwarzer, *Rule 11 Revisited*, 101 Harv. L. Rev. 1013 (1988). Unfortunately, the rule has been not only vigorously, but unevenly, applied. See *Eastway Constr. Corp. v. City of New York*, 821 F.2d 121 (2d Cir. 1987) (Pratt, J. dissenting) ("apparent disparities, even capriciousness, [now seem] to characterize much of Rule 11 jurisprudence"), *cert. denied*, \_\_\_ U.S. \_\_\_, 108 S. Ct. 269 (1987).

A survey conducted by the Federal Judicial Center (FJC) illustrates these substantial inconsistencies in the application of Rule 11. The survey was based on ten hypothetical cases adapted

<sup>8</sup> In light of the fact that the Court of Appeals reversed the imposition of sanctions on one ground (but affirmed on two others), it vacated the order of sanctions and remanded the case to the district court to reconsider its choice of sanctions. Without permitting briefs or holding oral argument, the district court on February 16, 1990, issued an order *sua sponte* dismissing the underlying action and, seeing no need for modification, reaffirming the imposition of the original \$13,865.66 in monetary sanctions. P. App. 1a. This petition thus pertains to a final judgment and involves a legal issue conclusively passed upon by the Court of Appeals.

from real cases involving Rule 11 motions. When asked to assess whether a Rule 11 violation had occurred, the 292 participating federal judges responded to individual cases very differently. The proper application of Rule 11 was so unclear that almost half the judges in the survey would have sanctioned the same paper that the other half of the responding judges thought did not violate the rule. One explanation the FJC report offered for this lack of consensus was disagreement over how to interpret Rule 11's generalized standards. Note, *Plausible Pleadings: Developing Standards for Rule 11 Sanctions*, 100 Harv. L. Rev. 630, 641 (1987) (citing S. Kassin, *An Empirical Study of Rule 11 Sanctions* 38 (Federal Judicial Center 1985)).

Thus, one commentator has stated:

[I]t is apparent that not all judges agree, in philosophy or in practice, on precisely what conduct constitutes a violation of the rule. Practicing under Rule 11 is like negotiating a minefield. You know there will be an explosion if you step on a mine. The trouble is, you don't know where the mines are.

Joseph, *The Trouble with Rule 11—Uncertain Standards and Mandatory Sanctions*, 73:8 A.B.A.J. 87, 88-9 (1987). See also, Schwarzer at 1015 ("in interpreting and applying Rule 11, the courts have become a veritable Tower of Babel"); Note, 100 Harv. L. Rev. at 650 ("Erratic application of Rule 11 threatens to convert it from a constructive principle for case load management into a random instrument of judicial intimidation. . . . A scatter-shot rule . . . deters too much; it is unnecessarily costly in terms of chilling valid litigation.")

This Court recently has considered two Rule 11 cases involving the responsibility of attorneys under Rule 11. *Pavelic & Leflore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989) and *Danik, Inc. v. Hartmarx Corp.*, 875 F.2d 890 (D.C. Cir.), *cert. granted Sub nom. Cooter & Gell v. Hartmarx Corp.*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 275 (1989). In *Pavelic*, the Court held that the individual attorney signing a pleading is subject to Rule 11 sanctions, but not his law firm. In *Cooter & Gell*, the Court apparently has agreed to decide whether jurisdiction exists to impose Rule 11 sanctions following a plaintiff's voluntary dismis-

sal pursuant to Fed R. Civ. P. 41, and whether sanctions on appeal *automatically* should be imposed upon affirmance of a Rule 11 award. These decisions, while certainly important, do not provide any guidance as to the legal standard for imposing sanctions on *parties* under Rule 11.<sup>9</sup> The two circuits which have addressed that issue—the Ninth and the Second—have come to entirely different conclusions.

Under the standard applied in the Second Circuit, so long as a represented party acts in good faith and truthfully presents the facts as it believes them to be to counsel, the party may not be sanctioned under Rule 11. *Calloway*, 854 F.2d at 1474-5; *Greenberg v. Hilton Int'l. Co.*, 870 F.2d 926 (2d Cir. 1989). By contrast the Ninth Circuit in this case held that represented parties must conduct an "objectively reasonable" prefiling investigation before authorizing counsel to initiate an action.<sup>10</sup>

It is by now well-settled that in the case of counsel, the applicable standard under Rule 11 is one of objective reasonableness. As colorfully put by Judge Schwarzer. "[T]here is no room for a pure heart, empty head defense under Rule 11." Schwarzer, *Sanctions Under The New Federal Rule 11 - A Closer Look*, 104

<sup>9</sup> In fact, in both cases where this Court granted *certiorari*, the represented party (along with counsel) had also been sanctioned under Rule 11. However, in *Calloway*, the represented party failed to prosecute his appeal. Thus, one of the most important holdings of that case—that the subjective standard of reasonableness applies to represented parties—was not reviewed by this Court. In *Cooter & Gell*, the represented party declared bankruptcy and therefore did not prosecute its appeal. Here, conversely, Finley Kumble has been effectively immunized from the proceedings through bankruptcy, and it is the represented party that seeks the guidance of this Court.

<sup>10</sup> In its opinion below, the Ninth Circuit claims support for its holding from the Fourth Circuit's opinion in *Cleveland Demolition Co. v. Azcon Scrap Corp.*, 827 F.2d 984 (4th Cir. 1987). However, that opinion did not discuss the responsibilities of *represented parties* under Rule 11. To the contrary, the *Cleveland Demolition* court stated: "To fulfill his duty, an attorney must investigate the facts, examine the law, and then decide whether the complaint is justified." *Id.* at 988 (emphasis added).

F.R.D. 181, 187 (1985). In fact, the Second Circuit was one of the first courts to recognize that, under amended Rule 11, "subjective good faith no longer provides the safe harbor it once did" for attorneys. *Eastway Constr. Corp. v. City of New York*, 762 F.2d 243, 253 (2d Cir. 1985), *cert. denied*, 484 U.S. 918 (1987). In the case of represented parties, however, the same court has concluded that subjective good faith precludes the imposition of Rule 11 sanctions: "[A]n 'objectively reasonable test' . . . is appropriate only in evaluating the conduct of attorneys under Rule 11, not the conduct of parties represented by attorneys." *Calloway*, 854 F.2d at 1474. As explained by the Second Circuit:

As licensed professionals and officers of the court, attorneys are expected to measure up to minimal standards of professional competence under the Rule and thus may not excuse their conduct on the ground that they were acting in good faith. . . .

We believe that a party represented by an attorney should not be sanctioned for papers signed by the attorney unless the party had actual knowledge that filing the paper constituted wrongful conduct, e.g., the paper made false statements or was filed for an improper purpose. . . .

We believe that where a represented party either did not knowingly authorize or participate in the filing of a paper that violated Rule 11, sanctions against that party are not appropriate. We further believe that when a party has participated in the filing of a paper signed by the attorney or has signed a paper himself but did not realize that such participation or signing was wrongful, then sanctions against the party are also not appropriate. . . .

*Id.* at 1474-5.

*Calloway* has been followed consistently within the Second Circuit. See, e.g., *Greenberg*, 870 F.2d at 934 ("Where a party represented by an attorney is the target of a Rule 11 motion . . . the subjective good faith test applies.") See also *Quadrozzi v. City of New York*, 127 F.R.D. 63 (S.D.N.Y. 1989); *Alberts v. Wall Street Clearing Corp.*, 1989 U.S. Dist. LEXIS 7945, at 6 n.1

(S.D.N.Y. July 13, 1989). Under the Second Circuit's test, petitioner would not have been sanctioned under Rule 11. As the district court expressly found, neither Business Guides nor its employee, Mr. Lambe, intended to mislead the court, Pet. App. 53a; nor did Business Guides even understand the significance of the faulty preparation of the 1984 master seed list until four years after that document was prepared. Pet. App. 57a.

The Ninth Circuit acknowledged but expressly rejected the Second Circuit's test. Instead, the Ninth Circuit held that the proper test for both attorneys and their clients is "objective reasonableness under the circumstances." The distinction, if any, according to the Ninth Circuit lies not in the applicable standard but in its application: "What is objectively reasonable for a client," said the court, "may differ from what is objectively reasonable for an attorney." *Business Guides*, 892 F.2d at 810. Pet. App. 18a. Applying this standard, the court held that an objectively reasonable litigant under the circumstances would have conducted a telephone check, as did the district court's law clerk. *Id.* at 812. Pet. App. 22a.

By its holding, the Ninth Circuit not only rejected the Second Circuit's "good faith" test but, petitioners submit, created a standard which is needlessly harsh and amorphous. It is a standard destined to confound district courts and chill legitimate claims, contrary to the express caution of the Rules Advisory Committee. See Fed. Rule. Civ. P. 11 Advisory Committee Note to 1983 Amendment, 97 F.R.D. 198, 199 (1983).

There are several significant problems with the Ninth Circuit's approach. First, the function of Rule 11 is—or, we submit, should be—different in the case of parties and their counsel. As officers of the court there is reason to be concerned with attorneys' competence, diligence and integrity in the performance of their professional tasks. Whether or not counsel acts in good faith, therefore, it is a matter of legitimate judicial concern if his or her conduct falls below baseline standard's.<sup>11</sup>

<sup>11</sup> See, Note, *The Demise of a Subjective Bad Faith Standard Under Amended Rule 11*, 59 Temp. L.Q. 107, 137 (1986) ("objective standard of reasonable inquiry . . . accommodates the attorney's role as advocate

The same concern is not appropriate for parties. So long as such parties act in good faith, tell the whole truth and nothing but, they should be entitled to rely on the advice of counsel as to whether they need to verify certain facts or business records, or take other steps before filing suit.<sup>12</sup>

Second, the Ninth Circuit test—which directs courts to apply the same standard of "objective reasonableness" but, then, to analyze what is reasonable differently for counsel and parties—is not only hopelessly vague but will create myriad problems in application. Thus, it will not only exacerbate the already serious problem of non-uniformity under Rule 11 but will promote extended and costly factual inquiries in each Rule 11 proceeding.

with the attorney's ethical duty as an officer of the court."); see also *Lepucki v. Van Wormer*, 765 F.2d 86, 87 (7th Cir.), cert. denied sub nom. *Hyde v. Van Wormer*, 474 U.S. 827 (1985) (as officers of the court attorneys have an ethical and legal obligation to carefully review claims for truthfulness and sufficiency prior to submitting them); *Mohammed v. Union Carbide Corp.*, 606 F. Supp. 252, 261 (E.D. Mich. 1985) (in representing client, attorney cannot avoid duty owed to the administration of justice). See generally Model Code of Professional Responsibility DR 7-102(A) (1982) and Model Rules of Professional Conduct, Rules 3.1 & 3.3 (1983).

<sup>12</sup> The Ninth Circuit also believes that the objective standard of reasonableness applies to *pro se* parties. See, *Business Guides*, 892 F.2d at 811, Pet. App. 20a.; *Zaldivar v. City of Los Angeles*, 780 F.2d 823 (9th Cir. 1986); Advisory Committee Note, 97 F.R.D. at 199 ("the [reasonable inquiry] standard is the same for unrepresented parties.") However, this view is informed by the notion that when parties represent themselves they also must act, in some senses, as officers of the court. Without counsel to ensure that the Federal rules, among others, are complied with, *pro se* parties must undertake that obligation and be held accountable for failure to fulfill it. *Moon v. Newsome*, 863 F.2d 835 (11th Cir.), cert. denied, 110 S. Ct. 180 (1989); *Royce Int'l Broadcasting Co. v. F.C.C.*, 820 F.2d 1332 (D.C. Cir. 1987); *Kelley v. Secretary of Labor*, 812 F.2d 1378 (Fed. Cir. 1987). Our system of justice thus encourages litigants to retain counsel. See, e.g., *Spainhower v. United States*, 469 U.S. 1193 (1985). (Sixth Amendment not violated when court appointed standby trial counsel for *pro se* defendant). Application of the subjective test to represented parties will further encourage litigants to utilize retained or court-appointed attorneys, and to rely on such attorneys to ensure adequate pre-filing factual and legal inquiry.

Presumably, the Ninth Circuit's "objective reasonableness" test would vary from the case of a plaintiff with a second grade education, to the naturalized citizen unfamiliar with the American legal system to the sophisticated businessman and frequent litigant. And what will be the standard for litigants like the plaintiff in *Calloway* who, the record indicates, may have been "mentally ill"? *Calloway*, 854 F.2d at 1465. In addition to the characteristics of the represented party, other variables in the "reasonable litigant" test presumably would include the complexity of the subject litigation and the nature of the litigant's business. The determination of "objective reasonableness under the circumstances", in short, will require just the type of extensive "satellite" Rule 11 proceedings which courts have been admonished to avoid. See Advisory Committee Note, 97 F.R.D. at 201.

The Ninth Circuit understandably did not attempt to provide guidance as to what constitutes "reasonable" behavior for represented parties. In the case of attorneys, objectively reasonable behavior at least is defined uniformly—if not very precisely—as adherence to "minimal standards of professional competence." *Calloway*, 854 F.2d at 1474. But is there such a minimum level of competence for all parties from all walks of life, with all levels of education and experience, who find themselves (voluntarily or involuntarily) parties in federal court litigation? If so, the decision below is silent as to such standards, and represented parties can only guess as to whether their actions will be judged "reasonable." Cf., Note, *A Uniform Approach To Rule 11 Sanctions*, 97 Yale L.J., 901, 902 (1988) (Nonuniform Rule 11 decisions "have created an impression of arbitrariness . . .")<sup>13</sup>

<sup>13</sup> "Fairness requires the legal system to apply uniform standards to those who are similarly situated. Guidelines that address whom to sanction and factors to be weighed in determining appropriate sanctions are especially needed to ensure equal treatment under Rule 11, since a major argument undercutting the Rule's legitimacy has been that disagreement among judges has produced widely disparate results. Moreover, such guidelines would provide better notice to lawyers and clients about their respective areas of responsibility for frivolous submissions, and increase judicial efficiency in administering Rule 11 cases."

Note, 97 Yale L.J. at 913.

*Third*, there simply is no need to test the conduct of a party by the same standard (or even more or less the same standard, see above) as is applied to counsel. It is a reasonable goal to prevent a party from abusing the courts by filing litigation which it knows is baseless but files for the purpose of harassment or some other vexatious purpose. Similarly, there is never justification for knowingly submitting false evidence. But there is no need to go further and punish a client who believes in good faith that what she has told her attorney is accurate, even if it turns out not to be on account of some unknown fact. That is true even if, as lawyers or judges, we might find the party's failure to check further to be negligent. The right to seek redress of grievances is simply too important to erect barriers which will overly deter the assertion of potentially valid claims because of a fear that some mistaken fact or assumption later will be discovered and that the failure to appreciate it thereafter will be held "unreasonable". If there is to be a "screen" for such errors it is far better to place it upon counsel who are charged with knowing the types of questions to ask and the pre-filing inquiries to pursue.

To the extent there is any legitimate concern with the conduct of parties beyond the filing of litigation known to be baseless or with the making of knowingly false statements, it is that litigation may be filed with total indifference to its truth or merit. But that is simply an issue of what to do about so-called "recklessness," or "reckless indifference," which is a subject that this Court has confronted and dealt adequately with elsewhere. For example, in cases involving alleged defamation of public figures or officials, this Court has limited actions to those which are brought with "actual malice," i.e., subjectively in bad faith. E.g., *New York Times v. Sullivan*, 376 U.S. 254 (1964). However, to avoid the problem of indifference, the Court has defined malice to include both knowing misstatements and statements made with "reckless disregard" of their accuracy. *Id.* at 280. Similarly, the finding of "scienter" required under Rule 10b-5 can encompass either knowing or reckless misrepresentations or omissions. *Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723 (1975). See also, *Hackbart v. Holmes*, 675 F.2d 1114 (10th Cir. 1982); *Sharp v.*

*Cooper & Lybrand*, 649 F.2d 175 (3rd Cir. 1981), *cert. denied*, 455 U.S. 938 (1982). Given these holdings in areas of far more substantive significance, Rule 11 surely asks enough of lay people if it assures that they do not intend to deceive and are not recklessly indifferent about whether they have done so. To go beyond that and impose an objective standard of competence on them serves no readily cognizable policy of judicial management under Rule 11<sup>14</sup>.

<sup>14</sup> The Ninth Circuit's opinion also seemingly conflicts with the views of the Advisory Committee on the Federal Rules of Civil Procedure. In its comments to the 1983 amendments the Committee noted that

"Even though it is the attorney whose signature violates the rule, it may be appropriate under the circumstances of the case to impose a sanction on the client. See *Browning Debenture Holders' Committee v. DASA Corp.* [560 F.2d 1078 (2d Cir. 1977)]"

Advisory Committee Note, 97 F.R.D. at 200.

The Committee's citation to *Browning* indicates that, in the case of represented parties, a good faith standard was intended to apply. In *Browning*, certain debenture holders appealed from an unfavorable judgment in a securities fraud and breach of fiduciary duty case against the defendant debenture trustee, and the trustee sought attorney's fees. The *Browning* court refused to impose fees against plaintiffs personally unless it could be demonstrated "that they personally were aware of or otherwise responsible for the procedural action instituted in bad faith." *Browning*, 560 F.2d at 1089 (emphasis added).

The Second Circuit has interpreted the Committee's reference to *Browning* in precisely this fashion:

"We believe that a party represented by an attorney should not be sanctioned for papers signed by the attorney unless the party had actual knowledge that filing the paper constituted wrongful conduct, e.g., the paper made false statements or was filed for an improper purpose. The Advisory Committee stated that allocation of sanctions among attorneys and their clients was a matter of judicial "discretion" and that sanctions should be imposed on a party where appropriate under the circumstances. Fed. R. Civ. P. 11 Advisory Committee's Note to 1983 amendment. As guidance, the committee cited *Browning Debenture Holders Committee v. DASA Corp.*, 560 F.2d 1078 (2d Cir. 1977), a case holding that a represented party should not be held liable for wrongful conduct by

*Fourth*, to punish a party for what "it should have known," as the Ninth Circuit suggests, 892 F.2d at 811, Pet. App. 20a, effectively extends state abuse of process and malicious prosecution jurisprudence in the context of interpreting a federal rule of civil procedure. Those common law torts seek on the one hand to prevent wasteful litigation while recognizing the right of represented parties, under most circumstances, simply to be wrong. Thus, in most jurisdictions, for example, "malice" (*i.e.* bad faith or recklessness) and lack of probable cause are requisite elements of a claim for malicious prosecution. See, e.g., *Dellums v. Powell*, 566 F.2d 167 (D.C. Cir. 1977), *cert. denied*, 438 U.S. 916 (1978) (private individuals immunized from tort liability for malicious prosecution so long as they do not act with malice, even if they act unreasonably); *Howell v. Davis*, 374 N.E.2d 393 (1978) (applying New York law); *Citizens State Bank v. Hoffman*, 44 Cal. App. 2d 854 (1941) (under California law, proof of reliance on the advice of counsel in good faith after truthful disclosure of the facts usually establishes probable cause.)

In fact, to rewrite such state tort laws under the guise of interpreting a federal rule of civil procedure would raise serious concerns under both the Rules Enabling Act, 28 U.S.C. § 2072, and the Constitution. See *Sibbach v. Wilson & Co. Inc.*, 312 U.S. 655 (1941); *Erie R.R. v. Tompkins*, 304 U.S. 64 (1938). The federal rules may not confer substantive rights upon parties inconsistent with applicable state law,<sup>15</sup> nor may they "abridge,

attorneys unless the party was personally aware of or responsible for the conduct."

*Calloway*, 854 F.2d at 1471.

In the decision below, the Ninth Circuit attempted to distinguish *Browning* by noting that it was an "improper purpose" (rather than a Rule 11 inquiry) case. *Business Guides*, 892 F.2d 802, 811, Pet. App. 19a. But that is precisely the point. The Advisory Committee's reference to *Browning* indicates that for represented parties, sanctions under Rule 11 should be limited to conduct which otherwise would justify the imposition of attorney's fees—actions taken in bad faith or for an improper purpose.

<sup>15</sup> See, e.g., *Synanon Church v. United States*, 557 F. Supp. 1329 (D.D.C. 1983), *aff'd*, 820 F.2d 421 (D.C. Cir. 1987); *Haas v. Pittsburg*

enlarge or modify' any such substantive law. 28 U.S.C. § 2072. That Rule 11 (as interpreted by the Ninth Circuit) is "outcome determinative" and therefore violative of the *Erie* test, (see *Hanna v. Plumer*, 380 U.S. 460 (1965)), is underscored by the fact that Business Guide's claims in this case were dismissed with prejudice. There is no doubt that Congress has a legitimate interest in permitting courts to establish rules that assure the integrity of the litigation process, such as by enforcing minimal standards for counsel or preventing the submission of knowingly false evidence. However, a rule which effectively creates a federal tort of malicious prosecution without even its standards or prerequisites is more than an "incidental" infringement. *Id.* at 464-65. At a minimum, this question provides still further grounds for granting review.

### CONCLUSION

One of Congress' primary purposes in authorizing a single set of federal rules was to ensure a "uniform and consistent system of rules governing federal practice and procedure. . . ." *Burlington N. R.R. Co.*, 480 U.S. at 5. It is for that reason, presumably, that this Court frequently has exercised its discretionary authority of review to assure consistent application of those rules.<sup>16</sup> Here that

*Nat'l. Bank*, 60 F.R.D. 604 (D. Pa. 1973). *Cf. Burlington N. R.R. Co. v. Woods*, 480 U.S. 1 (1986) (Rule 38 of the Federal Rules of Appellate Procedure, providing for discretionary damages for frivolous appeals, supersedes (in diversity actions) Alabama's mandatory 10% penalty statute).

<sup>16</sup> See, e.g., *See Schiavone v. Fortune*, 477 U.S. 21 (1986) (certiorari granted because of an apparent conflict among the Courts of Appeals regarding Fed. R. Civ. P. 15(c)); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242 (1986) (certiorari granted to resolve conflict concerning standard to be applied under Fed. R. Civ. P. 56); *Daily Income Fund, Inc. v. Fox*, 464 U.S. 523 (1984) (certiorari granted to resolve a conflict regarding demand requirement of Fed. R. Civ. P. 23.1); *White v. N.H. Dept. of Employment Security*, 455 U.S. 445 (1982) (certiorari granted to resolve the timeliness standard set forth in Fed. R. Civ. P. 56(e)); *Snyder v. Harris*, 394 U.S. 332 (1969) (certiorari granted to resolve the conflict of whether Rule 23 allows separate claims to be aggregated to

uniformity is threatened both by the conflict between the Second and the Ninth Circuits and by the needlessly open-textured standard adopted by the court of appeals in this case. We respectfully submit that practice under Rule 11 has become extremely important to the processes of litigation in the federal courts and that the issue of what standard of conduct should be applied to parties under that Rule is a matter of substantial importance to the proper administration of justice. For those reasons, it is appropriate for this court to review the decision below and resolve the conflict among the Circuits.

Accordingly, and for the foregoing reasons, Business Guides respectfully requests that its petition for a writ of certiorari be granted.

Respectfully submitted,

STEPHEN V. BOMSE  
Counsel of Record  
STEPHEN N. GOLDBERG  
JOSHUA R. FLOUM  
HELLER, EHRMAN, WHITE &  
MCAULIFFE  
333 Bush Street  
San Francisco, CA 94104  
Telephone: (415) 772-6000  
*Attorneys for Petitioner*

meet the \$10,000 jurisdictional minimum); *State Farm Fire & Casualty Co. v. Tashire*, 386 U.S. 523 (1967) (certiorari granted because the case involved "a matter of significance to the administration of federal interpleader").

## **APPENDIX**

No. C 86 6164 SC

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,  
*Plaintiff.*

v.

CHROMATIC COMMUNICATIONS  
ENTERPRISES, INC., et. al.,  
*Defendants.*

ORDER RE RULE 11

SANCTION OF DISMISSAL

In *Business Guides v. Chromatic Communications, Inc.*, 119 F.R.D. 685, 687-88 (D.C. Cal. 1988), this court ruled that Business Guides Inc. ("Business Guides") violated Rule 11 of the Federal Rules of Civil Procedure. The court found that Business Guides acted unreasonably in (1) filing a TRO application based on inaccurate facts; (2) failing to conduct a reasonable factual inquiry after being put on notice of inaccuracies in the TRO application; and (3) making "wholly unsupportable" oral representations to a magistrate at the sanctions proceedings.

Subsequently, in *Business Guides v. Chromatic Communications Enterprises ("Business Guides II")*, 121 F.R.D. 402 (N.D. Cal. 1988), this court awarded \$13,865.66 to Chromatic Communications Enterprises, Inc. ("Chromatic") for Chromatic's legal expenses incurred in defending against the frivolous TRO action and in bringing the motion for sanctions. The court also ordered dismissal with prejudice of Business Guides' action because of "the rather remarkable circumstances of this case." *Id* at 406.

On appeal, the Ninth Circuit affirmed the court's imposition of sanctions for Business Guides' TRO application and subsequent failure to make a reasonable factual inquiry but reversed with respect to the oral representations because "Rule 11 does not apply to oral arguments or testimony before the court." *Business Guides, Inc. v. Chromatic Communications Enterprises, Inc.*, No. 88-15240, slip op., 14643, 14667 (9th Cir. 1989). The court

vacated the dismissal sanction and remanded it for reconsideration because it did not know if this court would "consider a sanction of dismissal appropriate in view of Business Guides' two rather than three violations." *Id* at 14668.

Upon reconsideration, the court sees no reason to lift its imposition of the dismissal sanction against Business Guides. The fact that Business Guides' lawyers' oral representations are not properly sanctionable under Rule 11 does not at all change the "rather remarkable circumstances" of this case. The filing of the TRO and the failure to make a reasonable factual investigation were and are sufficient grounds for the imposition of the sanction of dismissal. *See Business Guides II*, at 406.

In accordance with the foregoing, it is hereby ORDERED that Business Guides' action be dismissed with prejudice pursuant with this court's award of sanctions under Rule 11.

IT IS SO ORDERED.

Dated: February 16, 1990.

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United States District Judge

BUSINESS GUIDES, INC.,  
*Plaintiff-Appellant,*

v.

CHROMATIC COMMUNICATIONS  
ENTERPRISES, INC.; MICHAEL SHIPP,  
*Defendants-Appellees.*

No. 88-15240.

United States Court of Appeals,  
Ninth Circuit.

Argued and Submitted June 28, 1989.

Decided Dec. 21, 1989.

Publisher of business directory brought action against competitor for copyright infringement, conversion, and unfair competition. The United States District Court for the Northern District of California, 121 F.R.D. 402, Samuel Conti, J., imposed sanction against publisher which included payment of competitor's legal expenses and dismissal of publisher's action. Publisher appealed. The Court of Appeals, Wallace, Circuit Judge, held that: (1) objective standard of reasonable inquiry into factual basis of papers submitted to court was appropriate standard to apply when determining whether sanctions should be imposed against represented party; (2) sanctions were appropriately imposed against publisher for failing to verify false information or "seeds" placed in its directory before filing papers and requesting temporary restraining order against competitor; (3) oral representations and testimony made to magistrate were not sanctionable; and (4) competitor's successful defense on appeal of imposition of sanctions against publisher did not automatically entitle competitor to award of attorneys' fees.

Affirmed in part, reversed in part, vacated in part, and remanded.

## 1. Copyrights and Intellectual Property 83(4)

Appearance in competitor's directory of one or more "seeds," such as wholly fictitious entries or partially altered listings which have been purposefully placed in another publisher's copyrighted directory, is strong evidence that copyrighted material has been appropriated by competitor.

## 2. Federal Civil Procedure —2721

Objective standard of reasonable inquiry into factual basis of papers submitted to court is appropriate standard to apply when determining whether sanctions should be imposed on represented parties. Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.

## 3. Federal Civil Procedure —2721

For purpose of awarding sanctions, "reasonable" inquiry which attorney must make into factual basis for paper submitted to court is not the same as "reasonable" inquiry which client must make into factual basis. Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.

## 4. Federal Civil Procedure —2721

Failure of publisher of business directory to take any steps whatsoever to verify false information or "seeds" in directory before filing court papers and requesting temporary restraining order against competitor, which allegedly published business directory containing "seeds," was objectively unreasonable, and thus sanctionable. Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.

## 5. Federal Civil Procedure —2721

Failure of business directory publisher's research director to conduct more thorough investigation of false information or "seeds" placed in its directory, upon discovering that three or four out of ten "seeds" were baseless, was objectively unreasonable, and thus director's submission of affidavit referring to competitor's directory's use of "seeds" in proceeding requesting temporary restraining order against competitor was sanctionable. Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.

## 6. Federal Civil Procedure —2721

Rule of Civil Procedure did not permit sanctions to be imposed on party for oral representations and testimony made to magistrate, as rule applies only to "pleading, motion, or other paper." Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.

## 7. Federal Civil Procedure —2743

Party which successfully defended on appeal the imposition of sanctions on opposing party was not automatically entitled under Rule of Civil Procedure on sanctions to award of attorneys' fees on appeal, as legal costs on appeal were not costs "incurred because of" the filing in district court, within meaning of Rule. Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.

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Stephen V. Bomse, San Francisco, Cal. for plaintiff-appellant.

Neil L. Shapiro, Cooper, White & Cooper, San Francisco, Cal., for defendants-appellees.

Appeal from the United States District Court for the Northern District of California.

Before WALLACE, POOLE and HALL, Circuit Judges.

WALLACE, Circuit Judge:

Business Guides, Inc. (Business Guides) appeals from an order imposing Rule 11 sanctions in its copyright action against Chromatic Communications Enterprises, Inc. (Chromatic) and Shipp, Chromatic's president. Business Guides argues that the district court (1) erred in applying to Business Guides, a represented party, an *objective* standard of "reasonable inquiry" into the factual basis of papers submitted to court, Fed.R.Civ.P. 11; (2) erred in determining that Business Guides failed to conduct such a reasonable inquiry; and (3) abused its discretion in dismissing Business Guides's action as part of the sanction imposed. In addition, Chromatic urges us to invoke Rule 11 to require Business Guides to reimburse Chromatic for its costs of defending this appeal. The district court had jurisdiction pursuant to 28 U.S.C. § 1338(a). We have jurisdiction over this timely appeal

pursuant to 28 U.S.C. § 1291. We affirm in part, reverse in part, vacate in part, and remand.

# I

Business Guides is a subsidiary of Lebhar-Friedman, Inc., a leading publisher of trade journals and magazines in the United States. Business Guides publishes 18 different directories for specialized areas of retail trade. Since 1983, Business Guides has published a directory for computer products and services. This action was based on allegations that Chromatic copied the 1984 edition of Business Guides's computer products and services directory (Directory)

[1] To protect itself against copyright infringement by competitors, Business Guides intentionally plants incorrect information, known in the industry as "seeds," throughout its directories. Business Guides uses two types of seeds. "Type A" seeds are wholly fictitious entries, i.e. businesses which do not exist. "Type B" seeds are partially altered listings, containing minor errors such as transposed numbers in an address or misspelled names. The appearance of one or more seeds in a competitor's publication is strong evidence that copyrighted material has been appropriated.

Business Guides maintains a "master seed list" for each directory it publishes. Normally this master list, which identifies Type A and B seeds separately, is prepared before publication and its seeds are inserted just before the final printing. In preparing its 1984 master list, however, Business Guides did not follow its usual practice. First, the 1984 master list was prepared almost seven months *after* the publication of the Directory. More importantly for our purposes, Business Guides employed a flawed method of compiling the 1984 master list. This flawed method spurred this lawsuit and, ultimately, produced the Rule 11 sanctions now before us.

Because of a concern that the Directory contained insufficient Type A seeds to substantiate copying, Business Guides directed Burdick, one of its employees, to locate examples of a new form of Type B seed. The new kind of Type B seed would consist of

unintentional typographical errors which had shown up in the final version of the Directory. To locate such errors, Burdick compared the final Directory against initial questionnaires used by Business Guides to gather information from the listed companies. The questionnaires are prepared by Lambe, the Director of Research for Business Guides. When Burdick found a disparity between the information listed in the questionnaires and the final Directory, she recorded this on the master list as a Type B seed. This method, however, erroneously assumed that the information on the questionnaires was correct. In fact, information on the questionnaires was frequently revised by Business Guides employees in the proofreading stage. Thus, the 1984 master list of purported errors contained numerous Type B seeds which were factually accurate. The presence of similar listings in competitors' directories would therefore indicate accurate research rather than any copyright infringement of Business Guide's directory.

On October 31, 1986, Business Guides filed a complaint against Chromatic and Shipp, alleging copyright infringement, conversion, and unfair competition. Chromatic publishes a competing directory of computer software dealers. Business Guides sought, among other prayers, a temporary restraining order (TRO) to prevent Chromatic from displaying its directory at an upcoming important trade show. Business Guides's counsel was the law firm of Finley, Kumble, Wagner, Heine, Unterberg, Manley, Myerson & Casey (Finley Kumble).

Business Guide's complaint identified ten seeds in Chromatic's directory which allegedly had been copied. In support of its application for a TRO, Business Guides submitted various affidavits prepared by Finley Kumble. Among these was the affidavit of Burdick, which identified the ten seeds but did not specify what was incorrect about them. The district court allowed the affidavits to be filed under seal, accepting Business Guides's contention that if the information contained in the affidavits were revealed to the public, Business Guides's ability to catch copyright violators would be impaired.

A hearing on the TRO was scheduled for November 7, 1986. Three days before the hearing, the district judge's law clerk telephoned Finley Kumble and requested more specific informa-

tion regarding the ten seeds. The law clerk asked Finley Kumble to specify what was incorrect about each entry. Finley Kumble then contacted Lambe and requested this additional information. This was apparently the first time Finley Kumble asked for details about the ten "seeds."

Lambe reviewed the 1984 master list and provided Finley Kumble with the requested details. Lambe did not attempt to verify the information by calling the companies listed. Nor did he attempt to obtain the original questionnaires, since they were located in a warehouse in New York and the hearing was only three days away. Lambe did, however, check the accuracy of the seeds' information against subsequent editions of Business Guides's directory. He also checked the zip codes of the listings by consulting a zip code directory. As a result of his investigation, Lambe determined that either three or four of the ten seeds (the record is not clear) in fact contained *correct* information. After Lambe relayed this information to Finley Kumble, the later informed the court that Business Guides was retracting its claim of copying as to three of the ten seeds. In addition to retracting the three seeds, Finley Kumble provided the court with the requested specific information regarding the remaining seven seeds.

Concerned about the accuracy of the remaining seeds in light of (1) the retractions and (2) Chromatic's perceived apparent inability to respond to the allegations in the sealed affidavits, the district court law clerk took steps to verify the remaining seeds. By spending approximately one hour telephoning the companies reflected in the remaining seeds, the clerk determined that all but one of the seeds actually contained correct information.

Finley Kumble submitted supplemental materials to the court on November 7, including a supplemental affidavit of Lambe, prepared by the firm, reflecting the additional information uncovered in Lambe's investigation. Finley Kumble presented Lambe's declaration to him on the morning of the November 7 hearing. Lambe had several hours to review his affidavit. He made one correction, crossing out mention of a fourth seed which he had determined did reflect accurate information but which Finley Kumble had not retracted. Lambe then executed the affidavit.

On November 7, the court, in light of the inaccuracies in Business Guides's papers, denied Business Guides's application for a TRO, stayed further proceedings (including discovery), and referred the matter to a magistrate for a determination of whether Rule 11 sanctions should be imposed on Finley Kumble or Business Guides.

The district court summarized the subsequent sanction proceedings before the magistrate as follows:

The Chief Magistrate conducted two evidentiary hearings, one in December 1986 and one in January 1987. The first hearing was ordered to determine whether plaintiff's counsel Finley Kumble should be sanctioned pursuant to Fed.R. Civ.P. 11. The second hearing was ordered to determine whether Business Guides itself should be subject to sanctions pursuant to Fed.R.Civ.P. 11. At both hearings the parties were represented by Mr. Ephraim Margolin ("Margolin"), a local San Francisco defense attorney.

On April 3, 1987, Chief Magistrate Woelfen recommended that sanctions be imposed against both Business Guides and Finley Kumble. The Chief Magistrate recommended that Business Guides, but not Finley Kumble, be held responsible for filing the inaccurate TRO papers. The Chief Magistrate further recommended that both Business Guides and Finley Kumble be sanctioned for their conduct in defending the sanctions proceedings. The Chief Magistrate doubted the good faith of the parties' representations that the factual errors in the affidavit were attributable to coincidences. . . .

The parties, represented by new and separate counsel, filed objections to the April 3 report. Business Guides based its objection on its allegation that new evidence, not previously presented to the Chief Magistrate, was fundamental to a correct understanding of the circumstances of this case. This court did not rule on the objections, but referred the matter back to the Chief Magistrate for a hearing on the new evidence and potential reconsideration of his recommendations.

The Chief Magistrate conducted a third evidentiary hearing on July 9, 1987. Representatives from Business Guides and Finley Kumble were present as well as their respective new counsel.

*Business Guides v. Chromatic Communications, Inc.*, 119 F.R.D. 685, 687 (D.C. Cal.1988) (*Business Guides I*). The new information presented to the magistrate at the July 9 hearing was simply a full explanation, for the first time, of why the "seeds" had in fact contained accurate information. At the two earlier hearings, Business Guides had not discovered, and so could not explain, the faulty method used to compile the 1984 master seed list. Instead, Business Guides had implausibly argued that the accuracy of the allegedly inaccurate information was coincidental.

*Id.* at 689.

Based on the third evidentiary hearing, the magistrate, on September 14, 1987, issued a revised report and recommendation regarding sanctions.

In this report, the Chief Magistrate agreed with Business Guides that the evidence not previously before him was fundamental to a correct understanding of the case. The Chief Magistrate found that the new explanation for the occurrence of inaccuracies, the one the parties presented at the third evidentiary hearing, was reasonable. The Chief Magistrate stated that he no longer believed that either Business Guides or its counsel took part in any intentional misrepresentation or cover-up. The Chief Magistrate did, however, recommend that sanctions be imposed against both parties for their conduct.

The Chief Magistrate found sanctions appropriate against Business Guides because "they failed to conduct a proper inquiry, resulting in the presentation of unreasonable and false information to the court." The Chief Magistrate found that Business Guides used materials they knew or should have known were unreliable for the purpose of creating evidence of copyright infringement.

The Chief Magistrate found that sanctions were not appropriate against Finley Kumble in connection with the initial filing of the TRO application. The Chief Magistrate instead faulted Finley Kumble (along with Business Guides) for its action a few days after the initial papers were filed. The Chief Magistrate found that both Business Guides and Finley Kumble were put on notice that the court was conducting further inquiry into the factual allegations contained in their TRO papers. In response to an inquiry of the court, one of Finley Kumble's attorneys discovered and removed some of the false material in the affidavit. The Chief Magistrate found that at this point both parties had an obligation to conduct further inquiry into the accuracy of all the remaining material in the affidavit. This the parties failed to do.

The Chief Magistrate also recommended that sanctions be imposed against both parties for their conduct in the defense of the sanctions proceedings. The Magistrate determined that no reasonable person would have been satisfied with the [initial] explanations the parties offered with regard to the inaccuracies present in their papers.

*Id.* at 687-88 (citation omitted).

Business Guides and Finley Kumble filed objections to the magistrate's revised report, arguing that Rule 11 sanctions were inappropriate under the circumstances. The district judge rejected these objections and adopted the magistrate's findings of fact and recommendations. *Id.* at 688, 691.

The district judge agreed with the magistrate that (1) Business Guides violated Rule 11 in filing the TRO application; (2) Business Guides and Finley Kumble violated Rule 11 by failing, after the initial filing of the TRO, to conduct a reasonable inquiry into the facts even though they were put on notice of inaccuracies; and (3) Business Guides and Finley Kumble violated Rule 11 at the first two sanction hearings before the magistrate, *Id.* at 689. The district court rejected Business Guides's argument that oral representations, such as those made to the magistrate at the first two hearings, cannot be the basis for

Rule 11 sanctions. *Id.* at 690. Thus, the district court adopted three separate bases for finding a violation of Rule 11. Finally, the district judge unsealed the record and stayed imposition of the sanctions for thirty days, apparently in order to allow Chromatic to request particular sanctions. *Id.* at 691.

Chromatic then filed a motion for sanctions, which Business Guides opposed. In a decision issued August 5, 1988, the district court ruled on the motion. *Business Guides, Inc. v. Chromatic Communications Enterprises*, 121 F.R.D. 402 (N.D. Cal.1988) (*Business Guides II*). By the time this decision was issued, Finley Kumble had filed for bankruptcy, and Chromatic had withdrawn the part of its Rule 11 motion which applied to the law firm. The district court accepted this withdrawal and issued its ruling without prejudice to Chromatic's right to "pursue a sanctions award against Finley Kumble should its legal status change." *Id.* at 403; see also *id.* at 405. Thus, whether Finley Kumble violated Rule 11 did not figure in the district court's ultimate decision and is not an issue on appeal.

The district court also made further factual findings regarding the one remaining allegedly accurate seed, concluding on the basis of Chromatic's evidence that Chromatic did not copy this seed. See *id.* at 403-04. In addition, the district court rejected Business Guides' argument that it was in fact being sanctioned for the preparation of its master seed list in 1984, and that Rule 11 did not cover such conduct. *Id.* at 404.

Having reaffirmed its decision to impose Rule 11 sanctions, the district court next considered what sanctions to impose upon Business Guides. The court first imposed a sanction of \$13,865.66 for Chromatic's legal expenses incurred in defending against the frivolous action and in bringing the motion for sanctions. *Id.* at 405. The court then considered, but refused to award, monetary sanctions based upon Chromatic's alleged "business losses" suffered as a consequence of the lawsuit. *Id.* at 405-06. Next, though acknowledging that it was a "severe sanction," the district court ordered dismissal with prejudice of Business Guide's action. *Id.* at 406. The court reasoned that dismissal was warranted in light of its conclusion that the remaining seed was not copied by Chromatic, and because of "the rather remarkable circumstances of

this case, and the serious consequences of Business Guides' improper conduct." *Id.* Finally, the court considered but rejected the possibility of ordering Business Guides to reimburse the public fisc for the cost of the court's time. *Id.* The court reasoned that the deterrent purpose of Rule 11 was adequately served by the monetary sanction and dismissal of the action. From this order of sanctions and dismissal, Business Guides appeals.

## II

We review de novo the district court's determination, based on undisputed facts, that conduct constitutes a violation of Rule 11. *Zaldivar v. City of Los Angeles*, 780 F.2d 823, 828 (9th Cir.1986) (*Zaldivar*). The appropriateness of the sanction imposed is reviewed for abuse of discretion. *Golden Eagle Distributing Corp. v. Burroughs Corp.*, 801 F.2d 1531, 1538 (9th Cir.1986) (*Golden Eagle*).

Business Guides challenges the district court's imposition of Rule 11 sanctions on two grounds: the district court erred in (1) applying to Business Guides, a represented party, an *objective* standard of "reasonable inquiry" into the factual basis of papers submitted to court; and in (2) determining that Business Guides failed to conduct a reasonable inquiry. Business Guides also contends that the district court abused its discretion in dismissing Business Guides's action as part of the Rule 11 sanction imposed. Chromatic requests us to impose additional Rule 11 sanctions upon Business Guides to compensate Chromatic for its costs of defending this appeal and to preserve the deterrent effect of the sanction. We address these arguments in turn.

### A.

We first consider Business Guides's argument that the district court erroneously applied an objective standard of reasonable factual inquiry to a represented party. This is a purely legal question involving construction of Rule 11. We therefore review it de novo. *United States v. McConney*, 728 F.2d 1195, 1201 (9th Cir.) (en banc), cert. denied, 469 U.S. 824, 105 S.Ct. 101, 83 L.Ed.2d 46 (1984).

Rule 11 was amended significantly in 1983. The purpose behind the 1988 Amendments was to "revitalize the Rule by encouraging the use of sanctions where appropriate." *Zaldivar*, 780 F.2d at 829; *see also* Fed.R.Civ.P. 11 advisory committee note, *reprinted in* 97 F.R.D. 165, 198 (1983) (Committee Note) ("The new language is intended to reduce the reluctance of courts to impose sanctions"). Before its amendment, Rule 11 had been used infrequently. *See* Risinger, *Honesty in Pleading and its Enforcement. Some "Striking" Problems with Federal Rule of Civil Procedure 11*, 61 Minn.L.Rev. 1, 34-37 (1976) (only 23 reported cases in which parties sought sanctions between 1938 and 1976). Since 1983, under Rule 11's broader provisions for imposing sanctions for frivolous litigation, Rule 11 litigation has become a veritable cottage industry. *See Golden Eagle*, 801 F.2d at 1537.

At the heart of revitalized Rule 11 are its enlarged standards of sanctionable conduct for both attorneys and their clients. Under the amended rule there are basically three types of submitted papers which warrant sanctions: factually frivolous (not "well grounded in fact"); legally frivolous (not "warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law"); and papers "interposed for an improper purpose." Fed.R.Civ.P. 11. The amended rule also requires that a "reasonable" prefiling inquiry be conducted into the law and facts. It also *requires* judges to impose sanctions for any violation of the rule's standards while allowing judges considerable discretion in the choice of what sanction is appropriate.

In this circuit and others, courts have repeatedly emphasized that amended Rule 11 imposes an *objective* standard of conduct. *See, e.g. In re Disciplinary Action against Mooney*, 841 F.2d 1003, 1005 (9th Cir.1988) (*Mooney*) ("The requirements of Rule 11 are measured by an objective standard. Subjective good faith is not relevant."); *Unioil v. E.F. Hutton & Co., Inc.*, 809 F.2d 548, 557 (9th Cir.1986) (*Unioil*), *cert. denied*, 484 U.S. 822, 108 S.Ct. 83, 98 L.Ed.2d 45 (1987); *Golden Eagle*, 801 F.2d at 1538; *Zaldivar*, 780 F.2d at 829 ("The new text represents an intentional abandonment of the subjective focus of the Rule in favor of an objective one.") *Eastway Construction Corp. v. City of New*

*York*, 762 F.2d 243, 253 (2d Cir.1985) ("Simply put, subjective good faith no longer provides the safe harbor it once did."), *cert. denied*, 484 U.S. 918, 108 S.Ct. 269, 98 L.Ed.2d 226 (1987); *see also* Schwarzer, *Sanctions Under the New Federal Rule 11 — A Closer Look*, 104 F.R.D. 181, 187 (1985) ("There is no room for a pure heart, empty head defense under Rule 11."). However, these cases involved sanctions imposed on attorneys rather than represented parties.

[2] The issue we face is whether Rule 11 prescribes a different standard of "reasonable inquiry" into the facts for represented parties than for attorneys. This is an issue of first impression in this circuit.

We begin with the language of Rule 11. Amended Rule 11 provides in part:

Every pleading, motion, and other paper of a party represented by an attorney shall be signed by at least one attorney of record in the attorney's individual name, whose address shall be stated. A party who is not represented by an attorney shall sign the party's pleading, motion or other paper and state the party's address. . . . The signature of an *attorney or party* constitutes a certificate by the signer that the signer has read the pleading, motion, or other paper; *that to the best of the signer's knowledge, information, and belief formed after reasonable inquiry it is well grounded in fact* and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law, and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation. If a pleading, motion or other paper is not signed, it shall be stricken unless it is signed promptly after the omission is called to the attention of the leader or movant. If a pleading, motion or other paper is signed in violation of this rule, *the court*, upon motion, or upon its own initiative, *shall impose upon the person who signed it, a represented party, or both*, an appropriate sanction, which may include an order to pay to the other party or parties the amount of the reasonable expenses incurred because of the

filing of the pleading, motion, or other paper, including a reasonable attorney's fee.

Fed.R.Civ.P. 11 (emphasis added). As the highlighted language demonstrates, Rule 11's language provides no support for Business Guides's claim that represented parties are not subject to an objective standard of reasonableness. To begin with, the rule clearly authorizes, indeed requires, a judge to sanction a represented party for violations. Significantly, the rule draws no distinction between the state of mind of attorneys and parties. There is nothing in the rule to suggest that a represented party may only be sanctioned for bad faith. On the contrary, the rule, by requiring any "signer" of a paper (attorney or party) to conduct a "reasonable inquiry," would appear to prescribe similar standards for attorneys and represented parties.

Nor does the Advisory Committee Note to Rule 11 provide solid support for Business Guides's suggested interpretation. As for the amended rule's new, explicit authorization to sanction clients, the Committee Note states that "[e]ven though it is the attorney whose signature violates the rule, it may be appropriate under the circumstances of the case to impose a sanction on the client." See Committee Note, 97 F.R.D. at 200, citing *Browning Debenture Holders' Committee v. DASA Corp.*, 560 F.2d 1078 (2d Cir.1977) (*Browning*). The Committee Note does not convey an intention to apply different reasonable inquiry standards to attorneys and represented parties. On the contrary, the Committee Note reflects an intention to go beyond a bad faith standard for violations:

The amended rule attempts to deal with the problem [of courts' reluctance to impose sanctions] by *building upon and expanding* the equitable doctrine permitting the court to award expenses, including attorney's fees, to a litigant whose opponent acts in *bad faith* in instituting or conducting litigation.

....

The new language stresses the need for some prefiling inquiry into both the facts and the law to satisfy the affirmative duty imposed by the rule. The standard is one of reasonableness under the circumstances. This standard is

*more stringent than the original good-faith formula* and thus it is expected that a greater range of circumstances will trigger its violation.

97 F.R.D. at 198-99 (emphasis added) (citations omitted). It appears that the drafters intended to expand the scope of Rule 11's coverage beyond mere bad faith to encompass certain *objectively* unreasonable submissions and prefiling inquiries.

Business Guides suggests that we adopt the rule announced by the Second Circuit in *Calloway v. Marvel Entertainment Group*, 854 F.2d 1452 (2d Cir.1988) (*Calloway*), cert. granted on other grounds, \_\_\_\_ U.S. \_\_\_\_, 109 S.Ct. 1116, 103 L.Ed.2d 179 (1989). The court held in *Calloway* that "an 'objectively reasonable test' ... is appropriate only in evaluating the conduct of attorneys under Rule 11, not the conduct of parties represented by attorneys." *Id.* at 1474. The court explained that "a party represented by an attorney should not be sanctioned for papers signed by the attorney unless the party had actual knowledge that filing the paper constituted wrongful conduct." *Id.* The *Calloway* rule has been applied within the Second Circuit. See, e.g., *Greenberg v. Hilton International Co.*, 870 F.2d 926, 934 (2d Cir.1989); *Quadrozzi v. City of New York*, 127 F.R.D. 63, 79 (S.D.N.Y. 1989); *Alberts v. Wall Street Clearing Corp.*, 1989 WL 88585, 1989 U.S. Dist. LEXIS 7945, at 6 n. 1 (S.D.N.Y. July 13, 1989). In contrast to *Calloway*, the Fourth Circuit appears to apply an objective standard to represented parties' prefiling inquiry into facts. See *Cleveland Demolition Co. v. Azcon Scrap Corp.*, 827 F.2d 984, 987-88 (4th Cir.1987); see also *Portnoy v. Warehouse Entertainment Co.*, 120 F.R.D. 78, 74 (N.D.Ill. 1988).

In rejecting an objective reasonableness standard of inquiry for represented parties, the Second Circuit in *Calloway* offered two reasons. First, the court reasoned that "[a]s licensed professionals and officers of the court, attorneys are expected to measure up to minimal standards of professional competence under the Rule and thus may not excuse their conduct on the ground that they were acting in good faith." 854 F.2d at 1474. Second, the court deemed significant the Committee Note's citation to a prior Second Circuit case, arguing that "[a]s guidance, the Committee cited *Browning Debenture Holders' Committee v. DASA Corp.*,

560 F.2d 1078 (2d Cir.1977), a case holding that a represented party should not be held liable for wrongful conduct by attorneys unless the party was personally aware of or responsible for the conduct." *Id.*

We do not agree with the Second Circuit's reasons for adopting a subjective standard for represented parties. *Calloway's* first rationale — that attorneys, as licensed professionals, should be held to a higher standard of conduct — is a factor which the rule already takes into account. As the Committee Note instructs, "[t]he standard [of reasonable inquiry] is one of reasonableness under the circumstances." Committee Note, 97 F.R.D. at 198 (emphasis added). Obviously, what is objectively reasonable for a client may differ from what is objectively reasonable for an attorney. Moreover, the Committee Note instructs that willfulness or bad faith should be considered by the sanctioning judge in setting the appropriate sanction once it has been determined that a violation has occurred. *See id.* at 200 ("The reference in the former text to willfulness as a prerequisite to disciplinary action has been deleted. However, in considering the nature and severity of the sanctions to be imposed, the court should take account of the attorney's or party's actual or presumed knowledge when the pleading or paper was signed."). Finally, the Second Circuit's "licensed professional" argument has greater force in cases involving failures to conduct reasonable preling inquiries into the law. Where a violation occurs because of failure to make a reasonable inquiry into the *factual* underpinnings of a paper or pleading, the client may be in an equal or better position than the lawyer. This is not to say that the lawyer has only a minimal or secondary obligation to investigate the facts provided by the client — only that the client shares this obligation. Here, Business Guides was obviously in a superior position to understand its "seeding" system than was Finley Kumble.

We also do not read the Committee Note's reference to *Browning* as reflecting an intent to require a showing of bad faith when imposing Rule 11 sanctions on parties. The Committee Note states:

Even though it is the attorney whose signature violates the rule, it may be appropriate under the circumstances of the

case to impose a sanction on the client. *See Browning Debenture Holders' Committee v. DASA Corp., supra.* This modification brings Rule 11 in line with practice under Rule 37, which allows sanctions for abuses during discovery to be imposed upon the party, the attorney, or both.

*Id.* at 200. This paragraph, like the two paragraphs in the Committee Note immediately preceding it, explains a change in Rule 11's text which merely makes explicit the authorization for a particular sanctioning practice which some courts, prior to the amendment, had interpreted the prior version of the rule to allow. *See also id.* ("Courts currently appear to believe that they may impose sanctions on their own motion. Authority to do so has been made explicit. . .") (citation omitted); *id.* ("If the duty imposed by the rule is violated, the court should have the discretion to impose sanctions on either the attorney, the party the signing attorney represents, or both . . . and the new rule so provides. Although Rule 11 has been silent on this point, courts have claimed the power to impose sanctions on an attorney personally. . . . The amended rule should eliminate any doubt as to the propriety [of this practice].") (citations omitted). Thus, the Committee Note cites to *Browning* only as an example of a practice which the rule, as amended, explicitly authorizes — imposing a sanction upon a client.

The Second Circuit's conclusion that the Committee Note, by citing *Browning*, demonstrated an intent for a subjective standard to apply to represented parties is flawed for several other reasons as well. First, the fact that *Browning* required subjective bad faith is unexceptional; every case cited by the Committee Note required subjective bad faith as a prerequisite to Rule 11 sanctions. The objective standard did not exist prior to the 1983 amendments. Second, *Browning* itself did not involve any failure by the client or attorney to investigate the facts giving rise to the action. Instead, *Browning* involved a sanction for improper purpose. The district court in *Browning* had held that the plaintiffs "had acted in bad faith in instituting and maintaining this action" because plaintiffs' purpose was to obtain a reduction in the conversion price of certain debentures rather than to vindicate their legal rights. *Browning*, 560 F.2d at 1088.

Based on our reading of the text of Rule 11 and the Committee Note, we agree with the Fourth Circuit and conclude that represented parties should be held to an objective standard of "reasonable inquiry" into the facts. See Note, *A Uniform Approach To Rule 11 Sanctions*, 97 Yale L.J. 901, 915 (1988) ("If a client knowingly provides false facts, or provides facts that the client *should have known were false*, then the client should be sanctioned.") (footnotes omitted) (emphasis added). Our holding is consistent with our repeated statements, albeit in slightly different contexts, that Rule 11 as amended imposes an objective standard of conduct. See *Mooney*, 841 F.2d at 1005; *Unioil*, 809 F.2d at 557; *Golden Eagle*, 801 F.2d at 1538; *Zaldivar*, 780 F.2d at 829. Even the "improper purpose" prong of Rule 11, which requires sanctions for submissions "interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation," Fed.R. Civ.P. 11, has been interpreted in this circuit to impose an objective standard. See *Zaldivar*, 780 F.2d at 832 ("Harassment under Rule 11 focuses upon the improper purpose of the signer, *objectively tested*, rather than the consequences of the signer's act, *subjectively viewed* by the signer's opponent.") (emphasis added).

In addition, it is settled that pro se litigants are held to an objective standard of reasonableness under Rule 11. See Committee Note, 97 F.R.D. at 199. The Committee Note suggests that "[a]lthough the standard is the same for unrepresented parties, ... the court has sufficient discretion to take account of the special circumstances that often arise in *pro se* situations." *Id.* Mention of the court's "discretion" merely acknowledges that (1) what is objectively reasonable for a pro se litigant and for an attorney may not be the same, and (2) the pro se status of a violator may be relevant to the court's discretionary choice of the appropriate sanction in a given case. We fail to see why represented parties should be given the benefit of a subjective bad faith standard whereas pro se litigants, who do not enjoy the aid of counsel, are held to a higher objective standard.

Our holding is also consistent with the primary purpose behind Rule 11: deterrence of frivolous litigation. See *In re Yagman*, 796 F.2d 1165, 1184 (9th Cir.) (deterrence "paramount" and "over-

riding" purpose of Rule 11), *amended*, 803 F.2d 1085 (9th Cir.1986), *cert. denied*, 484 U.S. 963, 108 S.Ct. 450, 98 L.Ed.2d 390 (1987). An objective standard for represented parties will ensure greater vigilance to investigating factually baseless claims. See also *Zaldivar*, 780 F.2d at 829 ("Our conclusion that subjective bad faith is not an element to be proved under present Rule 11 is consistent with the advisory committee's purpose to revitalize the Rule by encouraging the use of sanctions where appropriate.") (attorney sanctions). Subjective bad faith is more difficult to demonstrate, and efforts to uncover it can spawn satellite litigation.

[3] In holding that an objective standard applies to lawyers and represented parties alike, we do not suggest that what is a "reasonable" inquiry for an attorney is also a "reasonable" inquiry for a client. As mentioned above, Rule 11's objective reasonableness standard "is one of reasonableness under the circumstances." Committee Note, 97 F.R.D. at 198; see also *id.* at 199 ("[W]hat constitutes a reasonable inquiry may depend on such factors as how much time for investigation was available to the signer ...").

## B.

Having determined that the district court correctly chose to apply an objective standard of reasonable inquiry to Business Guides, we now consider whether Business Guides violated that standard.

The district court agreed with the magistrate that Business Guides had violated Rule 11 by failing to conduct a reasonable factual inquiry on three separate occasions: (1) before filing the initial TRO papers, (2) before submitting Lambe's supplemental affidavit on November 7, and (3) before appearing at the first two hearings in front of the magistrate. *Business Guides I*, 119 F.R.D. at 689.

[4] We agree with the district court that the first two instances of conduct violated Rule 11. Business Guides is a sophisticated business entity that has extensive experience with copyright litigation. Its papers repeatedly characterize it as a pioneer in the

seeding method, which Business Guides's parent company, Lebhar-Friedman, has employed for over 40 years. It was unreasonable for Business Guides to take no steps whatsoever to verify the ten seeds before filing its papers and request for a TRO. As the district court correctly observed, "Business Guides could easily have checked on the accuracy of the identified seeds (as the court did) prior to submitting the information in an affidavit." *Id.* The district court's law clerk spent one hour and discovered that six of the allegedly false "seeds" in fact contained accurate information. We agree with the district court that Business Guides cannot rely on the alleged accuracy of its seed list as a shield from Rule 11 liability.

[5] We also agree with the district judge that Business Guides and Lambe violated Rule 11 by submitting Lambe's supplemental affidavit on November 7. The district judge's law clerk requested Business Guides's counsel for more specific information on the ten seeds. In searching for this information, Lambe, the Director of Research for Business Guides, also independently attempted to verify the information in the seeds by comparing it against subsequent editions of the Directory and postal zip code lists. Lambe discovered that three or four of the seeds were baseless. The discovery should have spurred Lambe to conduct a much more thorough investigation of the remaining seeds. We reject Business Guides's contention that Lambe should be commended for undertaking his investigation into the seeds' accuracy in the first place. Lambe's inquiry fell short of objective reasonableness under the circumstances of this case.

We also reject Business Guides's attempt to excuse its deficient inquiry by pointing to the short time frame in which it was operating. Business Guides stresses that it was seeking a TRO against Chromatic to prevent Chromatic from displaying its product at an impending trade show. Yet Business Guides apparently suspected Chromatic of copying for two years before this action was filed. Any haste in the initial filing was occasioned by Business Guides's own actions. In addition, we reject Business Guides's argument that Lambe had only two hours to review his affidavit on November 7. Two hours was more time than it took the law clerk to uncover the problems with the seeds. Even so, the

argument is curious that when a party is facing its self-imposed deadline, it is excused from what would otherwise be unreasonable. Nevertheless, Lambe had not just two hours but several days if one considers the time between Lambe's discovery of the inaccurate seeds and the TRO hearing.

[6] Although we agree with two of the district court's bases for imposing Rule 11 sanctions, we agree with Business Guides that the district court erroneously applied Rule 11 to *oral* representations and testimony made to the magistrate. The district court refused to "interpret Rule 11 as permitting oral misrepresentation while forbidding the same misrepresentation in writing." *Business Guides I*, 119 F.R.D. at 690. The court also reasoned that "[t]he arguments advanced in this case were made in connection with pleadings filed with the court and therefore fall within the scope of Rule 11." *Id.* We disagree. The use of Rule 11 is foreclosed by the rule's plain language. Rule 11 applies only to a "pleading, motion, or other *paper*." Fed. R.Civ.P. 11 (emphasis added). In keeping with this focus, Rule 11 imposes a signature requirement. The signature represents a certification by the signer that Rule 11's standards have been met. Sanctions are authorized only "[i]f a pleading, motion, or other paper is signed in violation of this rule," and the court is authorized to sanction only "the person who signed [the paper], a represented party, or both." *Id.*

We are aware of no case which authorizes an application of Rule 11 to oral representations. Nor did the district court cite any authority for this holding. In the absence of contrary binding authority, we follow the plain language of the rule and hold that Rule 11 does not apply to oral arguments or testimony before the court or magistrate. Courts have other weapons besides Rule 11 to combat oral misrepresentations by lawyers or witnesses. Although we reverse the application of Rule 11 to oral representations, we affirm the district court's finding that Rule 11 was violated on the other two grounds.

### C.

Business Guides next argues that the district court erred in dismissing its action as part of the Rule 11 sanction imposed. We

review the appropriateness of the particular sanction chosen for abuse of discretion. *Golden Eagle*, 801 F.2d at 1538.

In light of our reversal of one of the three instances of sanctionable conduct found by the district court, we need not address this issue. The district judge's choice of sanction hinged in part upon "the rather remarkable circumstances of this case, and the serious consequences of Business Guides' improper conduct." *Business Guides II*, 121 F.R.D. at 406. We cannot know if the district court will consider a sanction of dismissal appropriate in view of Business Guides' two rather than three violations. We therefore vacate the district court's choice of this sanction and remand for reconsideration in light of this opinion.

#### D.

[7] Chromatic also seeks Rule 11 sanctions for this appeal. While we may impose Rule 11 sanctions on parties whose papers submitted to this court violate Rule 11, see *Partington v. Gedan*, 880 F.2d 116, 130 & n. 8 (9th Cir.1989); *In re Curl*, 803 F.2d 1004, 1007 (9th Cir.1986), Chromatic does not argue (nor could it successfully) that Business Guides' appellate briefs violate the rule. Instead, Chromatic argues that a party who successfully defends a Rule 11 sanction on appeal should be awarded the costs of attorneys' fees *automatically*. According to this argument, since Chromatic has successfully defended the determination that Rule 11 ultimately was violated, it should be entitled to at least a portion of its fees. Otherwise, its victory of fees in the trial will be dissipated in paying for fees on appeal.

There is ample out-of-circuit authority for this proposition. See, e.g., *Danik, Inc. v. Hartmarx Corp.*, 875 F.2d 890, 897-98 (D.C.Cir.1989) (*Danik*); *Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 438 (7th Cir.1989) (*Gorenstein*); *Ballard's Service Center, Inc. v. Transue*, 865 F.2d 447, 450 (1st Cir.1989); *Hays v. Sony Corp. of America*, 847 F.2d 412, 419 (7th Cir.1988); *Muthig v. Brant Point Nantucket, Inc.*, 838 F.2d 600, 607 (1st Cir.1988) (*Muthig*); see also *Westmoreland v. CBS, Inc.*, 770 F.2d 1168, 1179-80 (D.C.Cir.1985) (*Westmoreland*) (successful appeal from denial of Rule 11 sanctions). In

awarding successful appellees the legal costs of their appeals under Rule 11, these courts have reasoned that such costs are part of the "reasonable expenses incurred because of" the frivolous filing in the district court. *Muthig*, 838 F.2d at 607, quoting Fed.R.Civ.P. 11 (emphasis added); see also *Danik*, 875 F.2d at 897-98. These courts have concluded that the practice of awarding attorneys' fees on appeal in this situation both preserves the incentives to seek sanctions in the district court and furthers the underlying goals of Rule 11. *Gorenstein*, 874 F.2d at 438; *Muthig*, 838 F.2d at 607; *Westmoreland*, 770 F.2d at 1179.

Were we writing on a clean slate, we might find these arguments persuasive. However, in this circuit the slate is not clean. Business Guides correctly points out that *Orange Production Credit Association v. Frontline Ventures, Ltd.*, 801 F.2d 1581 (9th Cir.1986), requires us to reject Chromatic's request for attorneys' fees on appeal. In *Orange Production*, we rejected the argument that the legal costs of defending an award of Rule 11 sanctions on appeal were costs "incurred because of" the filing in the district court. *Id.* at 1582. We reasoned that "[i]f we were to award sanctions of attorneys' fees on appeal based on this analysis . . . then every appellee who succeeded in preserving a favorable trial court award in a Rule 11 case would be entitled to fees on appeal regardless of the substance of the appeal." *Id.* Nor were we swayed by the argument that awarding Rule 11 sanctions to successful appellees would preserve the effectiveness of the sanction awarded in the trial court. *Id.* at 1582-83.

In holding that sanctions were unavailable in this situation, we followed the Fourth Circuit's decision in *Balch v. Westinghouse Electric Corp.*, 777 F.2d 165, 175 (4th Cir.1985), cert. denied, 476 U.S. 1108, 106 S.Ct. 1957, 90 L.Ed.2d 365 (1986). We also distinguished the District of Columbia Circuit's decision in *Westmoreland* on the grounds that it involved an appeal from the denial of Rule 11 sanctions. While our decision in *Orange Production* has been criticized, see *Danik*, 875 F.2d at 898, *Orange Production* remains the law of this circuit. We must therefore reject Chromatic's request for Rule 11 sanctions for this appeal.

We affirm the district court's determination that Business Guides violated Rule 11 by failing to conduct a reasonable prefiling inquiry into the facts before (1) signing the original complaint, and (2) submitting Lambe's supplemental declaration. We reverse, however, its holding that oral representations of Business Guides' employees violated Rule 11. We do not know the impact this will have on the monetary award or dismissal of the action. Therefore, we vacate the order of sanctions and remand to allow the district court to reconsider its choice of sanctions in light of our determination.

AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, AND REMANDED.

BUSINESS GUIDES, INC.,  
*Plaintiff,*

v.

CHROMATIC COMMUNICATIONS ENTERPRISES, INC. and  
MICHAEL SHIPP,  
*Defendants.*

No. C 86-6164 SC (FW).

United States District Court,  
N.D. California.

Aug. 5, 1988.

Publisher of business directory brought copyright infringement action against competitor. On competitor's motions for sanctions, the District Court, Conti, J., held that publisher of business directory would be required to pay competitor's legal expenses and out-of-pocket costs and its action would be dismissed as Rule 11 sanctions.

Ordered accordingly.

1. Federal Civil Procedure — 2721

Publisher of business directory would be required to pay competitor's legal expenses and out-of-pocket costs, and publisher's copyright infringement action against competitor would be dismissed as Rule 11 sanctions for filing action without reasonable factual inquiry; publisher claimed that false information or "seeds" that appeared in its directory also appeared in competitor's directory, but failed to check accuracy of purported seeds. Fed.Rules Civ.Proc. Rule 11, 28 U.S.C.A.

2. Federal Civil Procedure — 2721

Consequential damages suffered as result of frivolous copyright infringement action could only be sought through collateral action and would not be awarded as Rule 11 sanctions. Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.

Heller, Ehrman, White & McAuliffe, San Francisco, Cal., for plaintiff.

Cooper, White & Cooper, San Francisco, Cal., for defendants.

## ORDER IMPOSING SANCTIONS

CONTI, District Judge.

On April 12, 1988, this court issued an order adopting the recommendations of Chief Magistrate Woelflen that Business Guides, Inc. ("Business Guides") and its counsel Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey ("Finley Kumble") be sanctioned pursuant to Fed.R.Civ.P. 11. The order of the court also unsealed the file and record in the matter, and granted defendants Chromatic Communications Enterprises, Inc. ("Chromatic") and Michael Shipp ("Shipp") thirty days to respond to the court's findings with a motion for sanctions. The matter is currently before the court on defendants' motion for sanctions.

The defendants originally brought this motion for sanctions against both Business Guides and Finley Kumble. Subsequent to the defendants' notice of the motion, this court received a letter from the law firm of Milbank, Tweed, Hadley & McCloy ("Milbank Tweed") informing the court that Finley Kumble had recently dissolved and that the estate was in Chapter 11 bankruptcy proceedings in the United States Bankruptcy Court, Southern District of New York. Milbank Tweed informed the court that it represented the Chapter 11 Trustee for Finley Kumble, and that pursuant to court order, any proceeding to recover a claim against Finley Kumble was stayed under Section 362 of the Bankruptcy Code.

The issue of the applicability of a bankruptcy stay to these proceedings has never been briefed. After consulting with Milbank Tweed, defendants decided to withdraw that part of their motion which applied to Finley Kumble. Defendants' motion is therefore directed only toward Business Guides. The court will accept the representation of Milbank Tweed, as counsel for the trustee in bankruptcy, that any proceedings against Finley Kumble are stayed pursuant to the Bankruptcy Code. The court's disposition of the matter before it does not prejudice defendants' right to pursue a sanctions award against Finley Kumble should its legal status change.

Defendants argue that the action Business Guides brought against them had no basis in fact and was interposed to harass them. Defendants seek the imposition of sanctions against Business Guides, pursuant to Rule 11, in the form of an award of attorney's fees, damages for loss of business, and an order dismissing the action. Business Guides opposes defendants' motion, arguing that sanctions are inappropriate in the circumstances of this case.

The factual background and law applicable to this matter was set out in detail in the court's April 12, 1988 order. See *Business Guides v. Chromatic Communications Enterprises, Inc.*, 119 F.R.D. 685 (N.D.Cal.1988). In their moving papers, however, defendants have proffered evidence which further develops the factual background of these proceedings. In its order of April 12, 1988, the court explained that of the ten purported "seeds" used in Business Guides' directory, the seeds which allegedly demonstrated copyright infringement, the court could only confirm the falsity of the information given in one seed. 119 F.R.D. at 687. Defendants have now come forward with competent evidence that they did not copy the lone purported seed from Business Guides' directory. Rather, the defendants argue that the remaining seed was "planted" in their directory by Business Guides to investigate their operation.

The seed at issue was originally described by Business Guides as an entity entitled NFR Computer Room, 87-32 253rd St., Bellerose, New York 11426. An individual named Nick Rossini was listed as the President and Buyer of this company. According to plaintiff, Business Guides invented this company, and no such company has ever existed. See Declaration of Michael Lambe in Support of Plaintiff's Application for a Temporary Restraining order and for Preliminary Injunction, p. 6, filed with this court on November 7, 1986.

Michael Shipp, the president of Chromatic, has submitted a declaration in which he states "unequivocally" that he never purchased, borrowed, acquired, or ever had in his possession Business Guides' directory prior to the preparation of Chromatic's directory. Declaration of Michael Shipp in Support of Motion for Award of Sanctions, p. 3. Shipp further states

I have personally reviewed portions of this Court's record, following the unsealing thereof on or about April 12, 1988. From my review of that record, it appears that plaintiff is contending that I copied its publication, and although it originally pointed to ten so-called "seeds" which allegedly prove such copying, that claim is now reduced to a single "seed"; Richard Rossini. From a review of my own records, I have determined that Richard Rossini, doing business as The Answer man, was added to our data base when he ordered one of our directories. Attached hereto as Exhibit "A" is a true and correct copy of his order. Attached hereto as Exhibit "B" is a true and correct copy of his recent order for Micro-Leads. Following our standard practice, I forwarded to Mr. Rossini a questionnaire or survey for completion and return. Attached hereto as Exhibit "C" is a true and correct copy of the completed survey form I received from Mr. Rossini.

*Id.* pp. 3-4. Exhibit A is a copy of an order for Chromatic's diskette and source book. The form has been filled out with the name of Richard Rossini as president of a company called The Answer Man. The order gives the same New York address that Business Guides states it invented. Exhibit B is a copy of an order for a Chromatic directory with the same name and address filled in as Exhibit A. Exhibit C is a copy of a letter to Nick Rossini from Chromatic's source book asking for any changes to the NFR Computer Listing. The letter appears to reflect a change in the title of Rossini's company to "Rossini's Computer Room." This evidence indicates that some individual or entity other than Chromatic or Shipp was responsible for this seed appearing in Chromatic's directory.

Business Guides makes no attempt to challenge defendants' evidentiary showing. Business Guides neither admits nor denies defendants' contention that the purported seed was planted in Chromatic's directory by Business Guides. In fact, Business Guides' opposition to defendants' motion makes no mention of the Shipp declaration or the exhibits. This court can only interpret Business Guides' silence on this subject as its tacit admission that defendants were not in fact responsible for the appearance of this

purported seed in the Chromatic directory. The court is left to conclude that Business Guides' entire lawsuit has no basis in fact.

Business Guides opposes defendants' motion by arguing that, as a matter of law, it cannot be sanctioned for the use of its master seed list or for the presentation of an incorrect and inadequate explanation during the sanctions proceedings. These are arguments Business Guides has asserted throughout the proceedings. Business Guides also argues that it should not be sanctioned for relying in good faith on its counsel, and that Rule 11 does not authorize consequential damages.

This court has already found that Business Guides violated Rule 11. There is nothing in Business Guides' opposition papers which has persuaded this court that this determination is unsound. The court has already considered and rejected Business Guides' argument that its conduct is not sanctionable as a matter of law. The court, however, takes his opportunity to respond to Business Guides' characterization of the conduct for which it is being sanctioned.

Business Guides argues that

... to hold that the method of preparing the list *in 1984* gave rise to a violation of Rule 11 when the list was relied upon in 1986 is, in effect, to impose upon Business Guides a "continuing duty" to reevaluate or re-check business records. That is inconsistent with a steady line of cases which hold that Rule 11 is only applicable as of the "snapshot" in time when a pleading or other paper is filed. [citations omitted]

Memorandum of Points and Authorities of Business Guides, Inc. in Opposition to Defendants' Motion for Sanctions ("Memorandum of Business Guides"), p. 6. Business Guides is missing the point. The point is that a "snapshot" of the pleadings in this case demonstrates that Rule 11 was violated. When the pleadings were filed Business Guides' claims had no basis in fact; there was, and is, no evidence of copyright infringement. Rule 11 does not apply to the manner in which Business Guides prepares its business records. However, the rule does apply to the manner in which Business Guides brings lawsuits. The rule requires that a "reason-

able inquiry" be conducted before embarking on litigation. This Business Guides failed to do. This failure is sanctionable.

Business Guides has also argued that because of the intervening bankruptcy filing by Finley Kumble the burden of any sanction falls entirely on it. Business Guides argues that this is unfair because it was merely relying in good faith on its counsel. Business Guides argues that imposing sanctions on it in these circumstances "is akin to penalizing a patient who, although he has described to his physician his symptoms, failed to diagnose his cancer." Memorandum of Business Guides, p. 12.

The court first states that any decision not to impose sanctions on Finley Kumble is based on the legal effect of the bankruptcy stay and does not reflect a determination by this court that Finley Kumble's conduct was not sanctionable. The court, however, does not accept Business Guides' suggestion that responsibility in this manner is better directed toward its counsel. Both Business Guides and its counsel acted unreasonably throughout this litigation. Furthermore, it was Business Guides' failure to get its facts straight which precipitated this lawsuit. The problem with the commencement of this lawsuit, to use Business Guides' analogy, was not a faulty diagnosis, it was false symptoms.

This case illustrates well the dangers of a party's failure to act reasonably in commencing litigation. Here Business Guides, a sophisticated corporate entity, hired a large, powerful and nationally known law firm to file suit against a competitor for copyright infringement. This competitor happened to be a one-man company operating out of a garage in California. Two years later, after extensive time and effort on the part of the court, the various counsel for Business Guides, as well as various counsel for Business Guides' counsel, it turns out there was no evidence of infringement. The entire lawsuit was a mistake. In the meantime, the objects of this lawsuit have spent thousands of dollars of attorney's fees and have suffered potentially irreparable damage to their business. This entire scenario could have been avoided if, prior to filing the suit, Business Guides simply had spent an hour, like the court's law clerk did, and checked the accuracy of the purported seeds.

This court has already found that Business Guides violated Rule 11; the imposition of sanctions is therefore mandatory. See *Hudson v. Moore Business Forms, Inc.*, 827 F.2d 450, 453 (9th Cir. 1987). The district court has much discretion in tailoring an appropriate sanction for a party guilty of misconduct. "It is well established that courts have the inherent power to impose a variety of sanctions on both litigants and attorneys to regulate their docket, promote judicial efficiency, and deter frivolous filings." *Roadway Express, Inc. v. Piper*, 447 U.S. 752, 764, 100 S.Ct. 2455, 2463, 65 L.Ed.2d 488 (1980). The selection of an appropriate Rule 11 sanction "is ordinarily left in the first instance to the discretion of the district court and it will not be disturbed on appeal absent a showing of an abuse of discretion." *Huettig & Schromm, Inc. v. Landscape Contractors*, 790 F.2d 1421, 1427 (9th Cir. 1986). The language of Rule 11 itself authorizes sanctions in the form of an order to pay the aggrieved party the amount of reasonable expenses incurred because of the filing of the pleading, including a reasonable attorney's fee. Fed.R.Civ.P. 11. Further sanctions can include dismissal of the action with prejudice and entry of judgment by default. *Flaksa v. Little River Marine Construction Co.*, 389 F.2d 885, 887 (5th Cir.), cert. denied, 392 U.S. 928, 88 S.Ct. 2287, 20 L.Ed.2d 1387 (1968).

[1] Defendants have submitted declarations which indicate that they have incurred legal expenses and out-of-pocket costs in the sum of \$13,865.66 in defending this action and bringing this motion for sanctions. See Declarations of Messrs. Michael Shipp and Neil L. Shapiro in Support of Motion for an Award of Sanctions. Business Guides has not challenged the amount of claimed expenses or argued that the expenses were incurred unreasonably. After reviewing the papers filed in connection with this matter, the court finds that these legal expenses and costs were reasonably incurred. The court therefore orders Business Guides to pay defendants \$13,865.66 as a sanction, pursuant to Fed. R.Civ. 11.

[2] Defendants have also requested that they be compensated for economic losses suffered as a consequence of Business Guides' commencement of this litigation. Shipp's declaration indicates

that defendants suffered business losses of approximately \$39,000 in the form of excess costs and lost profits as a result of the commencement of this lawsuit. The damage to defendants' business reputation and the cost of lost business opportunities is difficult to assess. It may well be that the defendants have suffered irreparable damage.

Defendants, however, have cited no controlling authority in support of their request for an award of consequential damages under Rule 11. The court, while sympathetic to defendants' plight, is not persuaded that such compensation is within the purview of Rule 11. The court is of the opinion that such relief may only be sought through a collateral action. The court therefore declines to order such relief.

Defendants have also sought dismissal of this action as a sanction. The court is mindful that dismissal of an action is a severe sanction. However, it is now evident that this action has no basis in fact. Given the rather remarkable circumstances of this case, and the serious consequences of Business Guides' improper conduct, the court finds that dismissal is warranted. The court therefore orders that this action be dismissed with prejudice.

Finally, the court must decide if any further sanctions should be imposed on Business Guides independently by this court. In its April 12, 1988 order the court expressed its concern that the taxpayers, by bearing the cost of the satellite sanction hearings, have in effect been punished for the parties' misconduct. 119 F.R.D. at 690. The court also stated its intention to impose sanctions on Business Guides and Finley Kumble in an amount which would reasonably reimburse the taxpayers for the cost of the sanction proceedings. *Id.* The court is still concerned with the unfairness of the taxpayers paying for the parties' misconduct. However, in light of the sanctions herein imposed, the court finds that the deterrent purpose of Rule 11 has been satisfied and the imposition of further sanctions is not warranted.

In accordance with the foregoing, the court orders that:

- (1) Business Guides is to pay defendants \$13,865.66 as a sanction, pursuant to Fed. R.Civ.P. 11; and
- (2) The action is dismissed with prejudice.

BUSINESS GUIDES, *Plaintiff*.

v.

CHROMATIC COMMUNICATIONS ENTERPRISES, INC., and  
MICHAEL SHIPP,  
*Defendants*.

No. C-86-6164 SC (FW).

United States District Court,  
N.D. California.

April 12, 1988.

Publisher sought temporary restraining order for alleged improper copying of one of its business directories. After discovery of inaccuracies in publisher's affidavits supporting temporary restraining order, the District Court, Conti, J., held that: (1) publisher and publisher's attorney acted unreasonably in filing temporary restraining order, where publisher offered inaccurate information in its papers which could easily have been checked on prior to submitting information in affidavit; (2) publisher and its attorney acted unreasonably after initial filing of temporary restraining order, where neither party conducted reasonable investigation into accuracy of information until after it was discovered that there were problems with information; and (3) publisher and its attorney acted unreasonably in defense of sanction proceedings since it was not until after magistrate issued report concerning sanctions that parties uncovered true reason for inaccurate information.

Imposition of sanctions stayed for 30 days.

# 1. Federal Civil Procedure —2721

Publisher and publisher's attorney acted unreasonably in filing temporary restraining order, and publisher deserved sanctions under Rule 11 for its conduct, where publisher offered inaccurate information in its restraining order papers which could easily have been checked on prior to submitting information. Fed.Rules Civ. Proc.Rule 11, 28 U.S.C.A.

## 2. Attorney and Client —24 Federal Civil Procedure —2721

Publisher and its attorney acted unreasonably after initial filing of temporary restraining order subjecting both to Rule 11 sanctions; both were put on notice that court was conducting further inquiry into factual allegations contained in temporary restraining order application, and neither conducted reasonable investigation into accuracy of information until after it was discovered that there were problems with information. Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.

3. Attorney and Client —24  
Federal Civil Procedure —2721

Publisher and its attorney acted unreasonably in defense of Rule 11 sanction proceedings brought for publisher's and attorney's failure to check accuracy of information in affidavit supporting temporary restraining order; it was not until after magistrate issued report concerning sanctions for inaccurate information that publisher and attorney uncovered true reason for inaccurate information. Fed.Rules Civ.Proc.Rule 11, 28 U.S.C.A.

4. Federal Civil Procedure —2721

Rule 11 applies to oral representations and applies to party even if he did not actually sign pleadings as long as attorney who represented him did. Fed.Rules Civ. Proc.Rules 11, 11 note, 28 U.S.C.A.

5. Attorney and Client — 24  
Federal Civil Procedure — 2721

Court could impose Rule 11 sanctions, in amount which would reasonably reimburse taxpayers for costs of sanction proceedings, on publisher and its attorney for failing to check accuracy of information supplied in affidavit used to obtain temporary restraining order. Fed.Rules Civ. Proc.Rule 11, 28 U.S.C.A.

Finley, Kumble, Wagner, Heine, Underberg, Manley & Casey, Beverly Hills, Cal., James, Gack & Freeman, Santa Rosa, Cal., McCutchen & Doyle, San Francisco, Cal., for plaintiff.

Cooper, White & Cooper, San Francisco, Cal., for defendants.

## ORDER Re: RULE 11 SANCTIONS

CONTI, District Judge.

This action was originally brought by plaintiff Business Guides, Inc. ("Business Guides") against defendants Chromatic Communications Enterprises, Inc. ("Chromatic") and Michael Shipp ("Shipp"). Business Guides alleged copyright infringement and sought an injunction and damages for the alleged improper copying of one of its business directories. The case is currently before the court on the objections of Business Guides and its counsel, Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey ("Finley Kumble"), to the recommendations of Chief Magistrate Woelfen that sanctions be imposed against Business Guides and its counsel, pursuant to Fed.R.Civ.P. 11.

### I. BACKGROUND

Business Guides is a subsidiary of Lebhar-Friedman, a leading publisher of retail trade magazines and journals. Business Guides publishes directories for different areas of retail trade. In 1983, Business Guides began publishing an annual directory of computer products and services. In an effort to protect its directory from possible copyright infringement, Business Guides planted false information, called "seeds," throughout its directory. The seeds consisted of purposely altered street addresses, zip codes, or purposely misspelled names. These seeds were included in the directories so that, if these false entries were to appear in a competitor's publication, Business Guides would have evidence of copyright infringement.

In November of 1986 Business Guides, through its counsel Finley Kumble, filed this action for copyright infringement and applied for a temporary restraining order ("TRO") from this court. Business Guides believed that defendant had copied its directory and reformatted it as a diskette. Business Guides based this belief on the alleged discovery of its seeds in defendant's diskette. Business Guides submitted affidavits under seal, in support of its application for a TRO, alleging that if the information contained in the affidavits was disclosed to the public, the

effectiveness of the devices used to apprehend copyright violators would be lost. The court ordered the papers filed under seal.

Business Guides' affidavits stated that defendant had copied ten of plaintiff's seeds. One of the affidavits, that of Victoria Burdick ("Burdick") a sales representative for Business Guides, identified the entries containing the seeds in excerpts from both plaintiff's and defendant's directories. Burdick's affidavit did not specifically identify what was incorrect about the seeds.

Prior to the hearing on plaintiff's application for a TRO, the court requested that Finley Kumble provide it with more specific identification of the seeded information. After relaying the court's request to Business Guides, Finley Kumble informed the court that plaintiff retracted its claims of copying as to three of the ten seeds. Finley Kumble then specifically identified the seeded information contained in the remaining seven seeds and provided the alleged "correct" information.

After this retraction, the court proceeded to determine the accuracy of plaintiff's representations. The court was concerned because plaintiff's affidavits were filed under seal, and thus defendants had no opportunity to respond to the allegations. The court called one of the entries which it had been told contained seeded information and discovered the alleged incorrect information was actually correct. The court then called each of the remaining six seeds and discovered that neither plaintiff's nor defendant's directories contained the incorrect information as plaintiff had alleged. Of the three remaining seeds, the court could only determine that one was a true seed, in which the falsity of the information given to the court could be confirmed.

Subsequent to the court's discovery of inaccuracies in plaintiff's affidavits, the court referred the matter to Chief Magistrate Woelfen to conduct an evidentiary hearing concerning possible sanctions.

## II. SANCTIONS PROCEEDINGS

The Chief Magistrate conducted two evidentiary hearings, one in December 1986 and one in January 1987. The first hearing was

ordered to determine whether plaintiff's counsel Finley Kumble should be sanctioned pursuant to Fed.R.Civ.P. 11. The second hearing was ordered to determine whether Business Guides itself should be subject to sanctions pursuant to Fed.R.Civ.P. 11. At both hearings the parties were represented by Mr. Ephraim Margolin ("Margolin"), a local San Francisco defense attorney.

On April 8, 1987, Chief Magistrate Woelfen recommended that sanctions be imposed against both Business Guides and Finley Kumble. The Chief Magistrate recommended that Business Guides, but not Finley Kumble, be held responsible for filing the inaccurate TRO papers. The Chief Magistrate further recommended that both Business Guides and Finley Kumble be sanctioned for their conduct in defending the sanctions proceedings. The Chief Magistrate doubted the good faith of the parties' representations that the factual errors in the affidavit were attributable to coincidences. The Chief Magistrate also suggested that disciplinary proceedings be instituted against Finley Kumble pursuant to Local Rule 110-7.

The parties, represented by new and separate counsel, filed objections to the April 8 report. Business Guides based its objection on its allegation that new evidence, not previously presented to the Chief Magistrate, was fundamental to a correct understanding of the circumstances of this case. This court did not rule on the objections, but referred the matter back to the Chief Magistrate for a hearing on the new evidence and potential reconsideration of his recommendations.

The Chief Magistrate conducted a third evidentiary hearing on July 9, 1987. Representatives from Business Guides and Finley Kumble were present as well as their respective new counsel. On September 14, 1987, Chief Magistrate Woelfen issued a revised report and recommendation regarding sanctions.

In this report the Chief Magistrate agreed with Business Guides that the evidence not previously before him was fundamental to a correct understanding of the case. The Chief Magistrate found that the new explanation for the occurrence of inaccuracies, the one the parties presented at the third evidentiary hearing, was reasonable. The Chief Magistrate stated that he no

longer believed that either Business Guides or its counsel took part in any intentional misrepresentation or cover-up. The Chief Magistrate did, however, recommend that sanctions be imposed against both parties for their conduct.

The Chief Magistrate found sanctions appropriate against Business Guides because "they failed to conduct a proper inquiry, resulting in the presentation of unreasonable and false information to the court." Magistrate's Revised Report and Recommendations Regarding Rule 11 Sanctions ("Revised Report"), p. 12. The Chief Magistrate found that Business Guides used materials they knew or should have known were unreliable for the purpose of creating evidence of copyright infringement.

The Chief Magistrate found that sanctions were not appropriate against Finley Kumble in connection with the initial filing of the TRO application. The Chief Magistrate instead faulted Finley Kumble (along with Business Guides) for its action a few days after the initial papers were filed. The Chief Magistrate found that both Business Guides and Finley Kumble were put on notice that the court was conducting further inquiry into the factual allegations contained in their TRO papers. In response to an inquiry of the court, one of Finley Kumble's attorneys discovered and removed some of the false material in the affidavit. The Chief Magistrate found that at this point both parties had an obligation to conduct further inquiry into the accuracy of all the remaining material in the affidavit. This the parties failed to do.

The Chief Magistrate also recommended that sanctions be imposed against both parties for their conduct in the defense of the sanctions proceedings. The Magistrate determined that no reasonable person would have been satisfied with the explanations the parties offered with regard to the inaccuracies present in their papers.

Both Business Guides and Finley Kumble have filed objections to the Chief Magistrate's Revised Report. Both parties argue that sanctions are inappropriate in the circumstances of the case. Both parties also argue alternatively that in the event this court finds that the parties have violated Rule 11, the parties have already been punished enough to satisfy the objectives of Rule 11.

### III. APPLICABLE LAW

The Federal Rules of Civil Procedure provide, in relevant part:

The signature of an attorney or party constitutes a certificate by the signer . . . that to the best of the signer's knowledge, information, and belief *formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law*, and it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation. . . . If a pleading, motion, or other paper is signed in violation of this rule, the court, upon motion or upon its own initiative, *shall impose* upon the person who signed it, a represented party, or both, an appropriate sanction, which may include an order to pay to the other party or parties the amount of the reasonable expenses incurred because of the filing of the pleading, motion, or other paper, including a reasonable attorney's fees.

Fed.R.Civ.P. 11 (emphasis added).

The emphasized language was inserted in Rule 11 as part of the extensive amendments to its terms that were adopted in 1983. See 2A Moore's Federal Practice § 11.01[3](1985). The primary purposes of these amendments were (1) to substitute an objective standard of reasonableness for the previous subjective "good faith" test, (2) to impose on counsel an affirmative duty of diligent investigation of both the facts and the law bearing on the merits of his pleadings, and (3) to render the imposition of sanctions mandatory rather than discretionary when the standards of the Rule have been violated. Note of the Advisory Committee on the 1983 Amendments, 97 F.R.D. 165, 198 (1983); *Hudson v. Moore Bus. Forms, Inc.*, 827 F.2d 450, 453 (9th Cir.1987); *Golden Eagle Dist. Corp. v. Burroughs Corp.*, 801 F.2d 1531, 1536 (9th Cir.1986); *Orange Prod. Credit Assn. v. Frontline Ventures, Ltd.*, 792 F.2d 797, 800 (9th Cir.1986); *Huettig & Schromm, Inc. v. Landscape Contractors Assn.*, 790 F.2d 1421, 1426 (9th Cir.1986); *Eastway Constr. Corp. v. City of New York*, 762 F.2d 243, 253-54 (2d Cir.1985).

#### IV. ANALYSIS

In the instant case, Chief Magistrate Woelflan has issued a lengthy, detailed report recommending sanctions against both Business Guides and Finley Kumble. The report is thorough and well reasoned, and the Chief Magistrate is to be commended for his considerable efforts.

Neither party has raised any serious disagreement with the Chief Magistrate's factual findings and the court therefore adopts the statement of facts as presented in the Magistrate's Revised Report.

The standard of conduct under Rule 11 is one of objective reasonableness. Applying this standard to the circumstances of this case, it is clear that both Business Guides and Finley Kumble have violated the Rule.

[1] The court finds that Business Guides acted unreasonably in filing the TRO. It is undisputed that Business Guides offered inaccurate information in its papers. Business Guides could easily have checked on the accuracy of the identified seeds (as the court did) prior to submitting the information in an affidavit. The court finds Business Guides' reliance on the accuracy of their process for preparing "seeds" misplaced. The court rejects any claim that Business Guides conducted a "reasonable inquiry" prior to filing this action. The court therefore adopts the Chief Magistrate's finding that Business Guides is deserving of sanctions for its conduct in connection with the filing of the TRO application.

[2] The court finds that both Business Guides and Finley Kumble acted unreasonably after the initial filing of the TRO. Both parties were put on notice that the court was conducting further inquiry into the factual allegations contained in the TRO application. Neither party conducted a reasonable investigation of the accuracy of the seeded information after it was discovered that there were problems with three of the seeds. The court agrees with the Chief Magistrate that this failure to investigate is sanctionable conduct pursuant to Rule 11. The court therefore adopts the Chief Magistrate's recommendation that Business Guides and Finley Kumble should be jointly sanctioned for this

conduct in connection with the filing of the inaccurate TRO application.

[3] The court also finds that both Business Guides and Finley Kumble acted unreasonably in the subsequent defense of the sanctions proceedings. The parties initially sought to explain the fact that some of the alleged incorrect information was actually correct by arguing the occurrences were coincidental. The parties explained that Business Guides had sent a questionnaire to companies in order to compile its directory, and that some of the information in the questionnaire was incorrect. When Business Guides prepared its seeds, parties explained, it altered the incorrect information in such a way as to make the information correct. The Chief Magistrate summarized this line of defense in his Revised Report:

At both the December and January hearings, the parties testified plaintiff relied upon the questionnaire, which indicated the spelling was BLEDSOE [one of the "seeds"], for the information presented to the court. They testified that it was only a coincidence that the information represented to the court as incorrect seeded information (BLEDSOE) was actually correct. In my April 8, 1987 Report, I noted that in order for the court to believe defendant's explanation, plaintiff must be able to persuade me that Bledsoe's company incorrectly spelled his name on the questionnaire. More importantly however plaintiff would have had to convince me that it was merely coincidental that plaintiff chose to alter, among thousands of listings contained in the directory, first, this particular listing; second, this particular word in the listing; and third, this particular letter in the word, resulting in an alteration which turned out to be the true spelling of this man's name. I noted plaintiff asked me to believe the occurrence of a very similar coincidence in the COMPUTERLAND seed. I found the occurrence of two such similar and incredible coincidences impossible to believe. Accordingly, I doubted the good faith of the parties' representations and recommended sanctioning them for offering false representations in defense from Rule 11 sanctions. I also suggested that discipline proceedings against Finley,

Kumble may also be appropriate pursuant to Local Rule 110-7.

Revised Report, pp. 8-9. It was not until after the Chief Magistrate issued his April 3, 1987 report that the parties uncovered the true reason for the inaccurate information.

The Chief Magistrate has concluded that neither Business Guides nor Finley Kumble were engaged in any intentional misrepresentation or cover-up in their sanction defense. The court accepts this determination. The court finds that the arguments presented to the Chief Magistrate at the December and January hearings were wholly unsupportable, and that no reasonable attorney or person could have formed "a reasonable belief, after reasonable inquiry, that the explanations contained in those pleadings and professed at those hearings were well-grounded in fact." *Id.* The court also expresses its agreement with the Chief Magistrate's conviction that "[it] should not take the threatened imposition of sanctions or discipline and contempt proceedings to bring attorneys to fulfill their duties as officers of the court." *Id.* p. 22. The court therefore adopts the Chief Magistrate's recommendation that both parties should be sanctioned for their conduct in defense of the sanction proceedings.

Both Business Guides and Finley, Kumble have argued that the Chief Magistrate's interpretation of Rule 11 is erroneous as a matter of law. Finley Kumble argues

to the extent the Magistrate's Revised Report holds that Finley Kumble can be sanctioned for making (or failing to make) *oral* representations, the new recommendations are wrong as a matter of law. Rule 11 applies only to certifications of writings . . . . Indeed, Rule 11 may apply only to the attorney who has actually signed a paper, in which case Finley, Kumble's only possible responsibility may be for the TRO application which the Magistrate found did *not* violate Rule 11.

Finley Kumble's Objections to Magistrate's Revised Report And Recommendations, p. 10, fn. 6. Business Guides similarly argues that "Rule 11 has no application to developments subsequent to

filing the papers at issue." Business Guides' Sealed Objections to Magistrate's Revised Report, p. 8.

[4] The court rejects the parties' interpretation of Rule 11. The parties have not cited to the court controlling authority which indicates the Rule has no applicability to oral representations. The court does not interpret Rule 11 as permitting oral misrepresentation while forbidding the same misrepresentation in writing. The arguments advanced in this case were made in connection with pleadings filed with the court and therefore fall within the scope of Rule 11. The court also rejects the contention that Rule 11 cannot apply to a party if they did not actually sign the pleadings in connection with the sanction proceedings:

If the duty imposed by [Rule 11] is violated, the court should have the discretion to impose sanctions on either the attorney, the party the signing attorney represents, or both . . . , and the new rule so provides.

Fed.R.Civ.P. 11, Note of the Advisory Committee (emphasis added).

[5] Having adopted the Chief Magistrate's recommendation that sanctions be imposed against both Business Guides and Finley Kumble, the court must now determine the amount of sanctions. Both parties have argued that in the event the court determines that sanctions are warranted, they have already incurred sufficient expenses in defending this action to serve the Rule 11 purpose of deterring improper conduct. The court is not persuaded by this argument. These sanctions proceedings have occupied an enormous amount of the court's time. Chief Magistrate Woelfen has conducted three evidentiary hearings and has issued two in-depth reports. The Chief Magistrate and his staff have expended well over 180 hours in these satellite proceedings. This court has also dedicated considerable time and effort to these proceedings. This time and effort would have been saved if the parties had acted reasonably in connection with this litigation. It is the taxpayers who are being punished for the parties' misconduct. Therefore the court will impose sanctions in an amount which will reasonably reimburse the taxpayers for the cost of these satellite proceedings.

Before levying sanctions, however, the court will unseal these proceedings and allow the defendants an opportunity to respond to the court's findings, with a motion for sanctions. The court therefore stays the imposition of sanctions and grants defendants thirty (30) days from the date of the filing of this order to file a motion for sanctions.

#### V. ORDER

In accordance with the foregoing, the court orders that:

- (1) the recommendations of the Chief magistrate that sanctions be imposed against Business Guides and Finley Kumble are hereby adopted as the order of this court as set forth in this order;
  - (2) the objections of Business Guides and Finley Kumble to the recommendations of the Chief Magistrate are denied;
  - (3) the file in this matter is hereby unsealed; and
  - (4) the court stays the imposition of sanctions against Business Guides and Finley Kumble; defendants are granted thirty (30) days from the date of the filing of this order to file a motion for sanctions based on the findings of this court.
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No. C-86-6164 SC (FW)

#### UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,  
*Plaintiff,*

v.

CHROMATIC COMMUNICATIONS  
ENTERPRISES, INC., and  
MICHAEL SHIPP,  
*Defendants.*

#### MAGISTRATE'S REVISED REPORT AND RECOMMENDATION REGARDING RULE 11 SANCTIONS

##### I. BACKGROUND

In the underlying action, plaintiff Business Guides is seeking an injunction and damages for copyright infringement involving the alleged improper copying of one of its business directories. Defendant Chromatic Communications has denied infringement and asserts it used only independent sources in preparing its directory.

In the Fall of 1986, plaintiff applied for a temporary restraining order ("TRO") and submitted affidavits under seal alleging that if the information contained in the affidavits was disclosed to the public, the effectiveness of the devices used to apprehend copyright violators would be lost. The trial judge, Honorable Samuel Conti, requested the undersigned magistrate to conduct an evidentiary hearing concerning possible sanctions resulting from plaintiff's misrepresentations to the court in the TRO application. In December 1986 and January 1987, I held two evidentiary hearings. The first was ordered to determine whether plaintiff's counsel, Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey ("Finley, Kumble"), should be sanctioned pursuant to Rule 11. The second hearing was ordered to determine whether plaintiff itself should be held subject to Rule 11 sanctions. At both hearings, the parties were represented by Mr. Ephraim Margolin, a local San Francisco defense attorney.

In my Report and Recommendation to Judge Conti, filed on April 3, 1987, I recommended sanctions be imposed against both Business Guides and Finley, Kumble. I recommended that plaintiff, but not Finley, Kumble, be held responsible for filing the faulty TRO. Further, I recommended that both plaintiff and Finley, Kumble be sanctioned for what was at that time perceived to be an intentional cover-up in defense against those sanctions. Both parties, now represented by new and separate counsel, objected to my recommendation and requested Judge Conti disapprove the recommendation for sanctions. Business Guides based its objection on its allegation that new evidence, not previously presented to me, was absolutely fundamental to a correct understanding of the circumstances of this case. Based on Business Guides' representation that such evidence was not previously presented to me, Judge Conti referred the matter back to this court for reconsideration.

On July 5, 1987, this court conducted a third hearing wherein Business Guides' new evidence was adduced. Present at this hearing were representatives from both Business Guides and Finley, Kumble, and their respective new counsel.

I agree with Business Guides that the evidence not previously before me is "absolutely fundamental" to an understanding of what transpired in preparing the TRO application. It is only now, after the many months this controversy has been pending, that I have been presented with a reasonable explanation as to how inaccurate information was originally presented to the court. I no longer believe either Business Guides or its counsel, Finley, Kumble, took part in any intentional misrepresentation or cover-up. I do however find a reasonable inquiry, required by Rule 11, was not conducted by either Business Guides or its counsel, Finley, Kumble.

## II.

### STATEMENT OF FACTS

Plaintiff publishes directories for different areas of retail trade. In 1983, plaintiff began publishing an annual computer-related directory. Plaintiff testified that due to its concern that a competi-

tor might pirate its directory, it planted false information, called "seeds," throughout its directory. Various street addresses and zip codes were altered by one digit or names were misspelled, so that if the same false information was subsequently printed in a competitor's directory, plaintiff would have strong evidence of copyright infringement.

In early October, 1986 a representative of plaintiff contacted Michael Bamberger, a partner in Finley, Kumble's New York office and told him plaintiff believed that defendant had copied plaintiff's directory and had reformatted it as a diskette. Plaintiff based this belief on the alleged discovery of plaintiff's seeds in defendant's diskette. Bamberger contacted Finley, Kumble's Beverly Hills office and requested assistance from a partner and an associate. Finley, Kumble then prepared a TRO seeking to prevent defendant from marketing its directory at the upcoming Comdex trade show. The associate signed the TRO application. Finley, Kumble prepared affidavits for plaintiff's sales representative, Victoria Burdick, and publisher, Michael Lambe. The affidavits stated defendant had copied plaintiff's seeds. Burdick's affidavit further identified the entries containing the seeds in attached copies of excerpts from both plaintiff's and defendant's directories. Both Burdick and Lambe subsequently testified they reviewed, edited, and executed those affidavits. Both affidavits were filed under seal in support of the TRO application.

In the attached copies to Burdick's affidavit, plaintiff indicated only those entries in the directory that contained the seeds. Plaintiff failed to specifically identify what was incorrect about each entry. Robert Funsten, Judge Conti's law clerk, telephoned the Finley, Kumble associate and asked her to be more specific in her identification of the seeded information. Mr. Funsten wanted to know what was incorrect in each identified entry. The associate requested this information from plaintiff. She then informed Funsten that although plaintiff had asserted in its signed affidavits that defendant copied ten of plaintiff's seeds, plaintiff retracted its claims regarding three of the ten.<sup>1</sup> She then specifically identified the seeded information contained in the remaining seven seeds and provided the alleged "correct" information. For example, she told Mr. Funsten that in one of the entries, COMPUTERLAND,

the street address had been altered. She indicated that the address both plaintiff and defendant had printed in their directories, 3545 Bay Road, was incorrect and had been planted by plaintiff as a seed. She told Funsten the correct address was 3845 Bay Road.

Because the affidavits were made under seal and defendant had no opportunity to respond to plaintiff's allegations, and because of the suspicious retraction of three of the seeds, Funsten called one of the entries which he was told contained seeded information to determine the accuracy of plaintiff's representations. He discovered the alleged incorrect information was actually correct. Funsten proceeded to telephone each of the remaining six seeds. He discovered the information contained in four was entirely correct (i.e., neither plaintiff's nor defendant's directories contained the incorrect information plaintiff said they did). Of the three remaining seeds, one could not be confirmed and falsehood of another was questionable at best.<sup>2</sup> Only one was a verifiable true seed (i.e., the falsity of the information given to the court has been confirmed.<sup>3</sup>

Below are two seeds that plaintiff alleged defendant copied. These two seeds were focused upon at the July 5, 1987 hearing. Included is the information plaintiff presented to the court as accurate and the information the court later determined to be accurate. (For the facts and circumstances of other seeds, see April Report and Recommendation, pages 5-12).

#### SEED #1: *Computerland*

Plaintiff informed the court that this seed was created by printing Computerland's street address incorrectly: 3545 Bay Road. Plaintiff asserted defendant copied this incorrect information and this is evidence of infringement. The correct address was alleged to be 3845 Bay Road.

Upon further investigation, the court discovered the correct address is indeed 3545 Bay Road, as listed by defendant. At the January hearing, Ms. Burdick testified the information relied upon when making representations to the court came from the actual questionnaire sent to Computerland, i.e., from Computerland itself.

In the April 3, 1987 Report, I noted that in order to believe plaintiff's explanation, I had to first be persuaded that Computerland inaccurately completed the questionnaire; Computerland would have had to mistakenly list its address as 3845 Bay Road, instead of 3545 Bay Road. I noted I had to further be persuaded that plaintiff created 3545 as a seed and it was entirely by coincidence that the seeded address, created by plaintiff, turned out to be the correct address. I found such an incredible set of circumstances impossible to believe.

#### SEED #2: *Premier Source of Distributing, Inc.*

Plaintiff asserted this seed was created by spelling the company's sales manager's name incorrectly: BLEDSOE. Plaintiff alleged the true spelling was BLODSOE. Plaintiff asserted defendant's inclusion of the incorrect spelling, BLEDSOE, is evidence of infringement. The court discovered the correct spelling of the sales manager's name is BLEDSOE, as defendant listed.

At both the December and January hearings, the parties testified plaintiff relied upon the questionnaire, which indicated the spelling was BLEDSOE, for the information presented to the court. They testified that it was only a coincidence that the information represented to the court as incorrect seeded information (BLEDSOE) was actually correct. In my April 3, 1987 Report, I noted that in order for the court to believe defendant's explanation, plaintiff must be able to persuade me that Bledsoe's company incorrectly spelled his name on the questionnaire. More importantly however plaintiff would have had to convince me that it was merely coincidental that plaintiff chose to alter, among thousands of listings contained in the directory, first, this particular listing; second, this particular word in the listing; and third, this particular letter in the word, resulting in an alteration which turned out to be the true spelling of this man's name. I noted plaintiff asked me to believe the occurrence of a very similar coincidence in the COMPUTERLAND seed. I found the occurrence of two such similar and incredible coincidences impossible to believe. Accordingly, I doubted the good faith of the parties' representations and recommend sanctioning them for offering false representations in defense from Rule 11 sanctions. I also

suggested that discipline proceedings against Finley, Kumble may also be appropriate pursuant to Local Rule 110-7.

The parties then filed objections to the April 3 Report and another hearing was scheduled before me for July 5, 1987. In preparation for this third evidentiary hearing, plaintiff filed a brief and affidavits wherein it explained, for the first time, that the reason inaccurate information had been conveyed to the court stemmed from Victoria Burdick's preparation of the Master Seed List for the 1984 directory. Business Guides explained that normally seeds are intentionally prepared ahead of time, prior to insertion into the publication. The seeds are then listed on the Master Seed List for future reference in assessing whether a competitor had copied seeds. The 1984 seed list, however, was not prepared in this manner. Instead, it was prepared in November 1984, almost seven months after the April publication of the 1984 directory. This was done because plaintiff believed the 1984 edition did not contain enough seeds to substantiate copying in a potential infringement action. In November, 1984, Ms. Burdick was instructed to compare the information on the relevant questionnaires with the information that had been printed in the already-published 1984 directory. Whenever she found a discrepancy between the questionnaire and the directory, she assumed a typographical or editorial error had been made in the directory, rather than the questionnaire, and listed those differences as seeds. Thus, she listed on the 1984 Master Seed List as correct the information that appeared on the questionnaires and listed as seeds the information printed in the 1984 directory.

Business Guides explained that because many of the questionnaires were preprinted by an outside agency (an outside agency printed on questionnaires the company information that had been published in the preceding directory and sent it to that company for the company's verification in order to use that information in the subsequent directory), because information was edited by employees of the listed companies or by plaintiff's telephone staff after preparation of the questionnaires, and because there were many other stages of editing between the time information was printed on the questionnaires and the time the directory was published, reliance on the information from the questionnaires

was an "ill-conceived" idea. They now claim this ill-conceived idea is responsible for the inaccuracies presented to the court in the TRO application.

### III. DISCUSSION

After reading the parties' new briefs and listening to their arguments, and after considering the new evidence not presented at the earlier hearings, I withdraw the recommendation presented in my April 3, 1987 Report and Recommendation. I have divided this revised recommendation into two parts. The first consists of my recommendation regarding sanctions for the initial filing of the TRO. The second, my recommendation regarding the parties' conduct in defense from those sanctions.

#### A. SANCTIONS FOR THE FILING OF THE TRO

Rule 11 of the Federal Rules of Civil Procedure provides in pertinent part:

The signature of an attorney or party constitutes a certificate by the signer that the signer has read the pleading, motion or other paper; that to the best of the signer's knowledge, information, and belief formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law and that it is not interposed for any improper purpose. . . .

In my April 3, 1987 Report, I recommended Rule 11 sanctions be brought against Business Guides for the inclusion of false statements in the TRO. I still believe this is appropriate. Although I no longer believe Business Guides' actions were "interposed for any improper purpose" because I do not believe they intentionally attempted to deceive the court, I believe Rule 11 sanctions are still appropriate because they failed to conduct a proper inquiry, resulting in the presentation of unreasonable and false information to the court. "Although 'improper purpose' may be an aggravating factor under the new Rule 11, its absence does not insulate from sanctions those who fail the objective standard of reasonableness." *In re Ronco, Inc., et al.*, 105 F.R.D. 493, 498

(N.D. Ill. 1985). I also now recommend, in contrast to my earlier April 3, 1987 Report, that Finley, Kumble be sanctioned for the initial filing of the TRO application. After further consideration, I find reasons to believe both parties acted unreasonably.

First, I believe Business Guides acted unreasonably in its preparation of the 1984 Master Seed List from which the seeds were taken and then used in the TRO application. I therefore find Business Guides acted unreasonably in its *initial* reliance on the accuracy of those seeds. Even Business Guides itself recognizes that post-publication preparation of the seed list was "in hindsight" an ill-conceived idea. I believe the unreliability of the questionnaires and this after publication seed preparation should have been apparent to any reasonable person who knew what Business Guides knew or should have known. Business Guides must have certainly been aware of its own questionnaire preparation and editing process. They knew or certainly should have known the questionnaires they were relying on as accurate went through a rigorous editing process. Their briefs abound in facts explaining the process used in preparing and editing questionnaires and how this process was wrought with errors. Their contention that post-publication seed preparation by relying on the accuracy of the questionnaires was only "in hindsight" an ill-conceived idea therefore does not ring true. I find the preparation of seeds, seven months *after* publication, by relying on the accuracy of questionnaires which Business Guides knew or should have known were unreliable, for the purpose of creating uncontrovertable evidence of infringement in a potential lawsuit, wholly unreasonable and deserving of sanctions.

I now consider whether Finley, Kumble should also be implicated at this stage of the proceeding. Finley, Kumble had been representing Business Guides for many years. These attorneys testified they relied on plaintiff's information because plaintiff is a sophisticated business entity that had successfully litigated copyright infringement cases in the past. The firm believed there was an urgent need for the TRO in order to prevent defendant from unfairly competing against plaintiff at the upcoming Comdex trade show. Because of the time pressure, an associate worked all weekend preparing the application. We believe that at this stage

in the filing of the TRO, therefore, Finley, Kumble had no reason to suspect Business Guides had prepared their seeds in anything other than a professional and reasonable manner. They therefore had no reason at this time to investigate further by inquiring into the validity and preparation of the seeds. Thus, I do not believe Finley, Kumble should be implicated along with Business Guides in the unreasonable initial reliance on the accuracy of the seeds.

I do believe however Finley, Kumble, along with Business Guides, is deserving of sanctions for the filing of the TRO due to the conduct that occurred, or rather actions that did not occur, days after the papers were filed.

Both Business Guides and Finley, Kumble were put on notice that the court was conducting further inquiry into the factual allegations contained in the TRO application. Three days before the scheduled hearing, Judge Conti's law clerk telephoned one of the Finley, Kumble lawyers requesting further specification of particular information Business Guides claimed defendant had copied.

Mr. Lambe testified that pursuant to this request he conducted a very short investigation of the proffered ten seeds and directed the preparation of the requested information. He stated he had only a "few minutes" to do "last minute checking." (Reporter's transcript, July 5, 1987, ("RT 7/5/87"), p. 39-40.) He testified his investigation consisted of checking only a subsequent edition of the Directory and a zip code book: "just the directories that were in my office and easily at hand." (RT 7/5/87 p. 39.) As a result of this brief investigation, Mr. Lambe discovered that three of ten seeds presented to the court were wrong; they actually contained correct information. Mr. Lambe thus removed these seeds from the application.

I believe that, even assuming the parties were justified in relying on the accuracy of the ten seeds taken from the unusually prepared 1984 seed list at the time of the initial filing of the TRO (which I find Finley, Kumble was but Business Guides was not), upon Mr. Lambe's discovery of three of ten mistaken entries after only a few minutes of investigation, the parties were then obligated to conduct further inquiry into the accuracy of *all* the seeds

presented to the court. I note it took the Judge's law clerk less than an hour to conduct such an investigation. This investigation revealed the errors contained in those seeds and resulted in the Judge's referral to me for an evidentiary hearing regarding the appropriateness of sanctions. Here, the parties had three days to conduct such an investigation and failed to do so. I believe this failure is sanctionable conduct pursuant to Rule 11.

It appears to this court that both Business Guides and Finley, Kumble were on notice and therefore responsible for the failure of an investigation. Finley, Kumble was aware Mr. Lambe's short investigation revealed that three of the ten seeds originally submitted to the court were incorrect. When asked about the crossing out of the three, Lambe told Finley, Kumble two were "soft" and he had some questions about another. (RT 12/86, p. 32, 65). Certainly Finley, Kumble should have at that time been concerned that evidence filed with the court as proof of infringement was only *then*, due to an investigation prompted by an inquiry from the court, being determined questionable. Under these circumstances, Finley, Kumble should have then conducted a further inquiry. I recommend sanctioning both Business Guides and Finley, Kumble jointly and severally for the filing of the TRO. Where there is nothing to indicate the blame should be on either the attorney or the client, sanctions should be imposed against both of them. *Kendrick v. Zandies*, 609 F.Supp. 1162 (D.C. Cal. 1985).

#### B. SANCTIONS FOR THE SUBSEQUENT DEFENSE AGAINST RULE 11

We next address whether Finley, Kumble or Business Guides should be sanctioned for presenting the arguments they did at the December and January hearings in their subsequent defense against Rule 11 sanctions. Both parties have testified they became aware in early January, prior to the second hearing, that the seeds were prepared seven months after the directory was published. In early January, Victoria Burdick and Michael Lambe met with the Finley, Kumble attorneys in Finley, Kumble's New York offices to prepare for the late January hearing. Michael Lambe testified it was at this meeting he and Ms. Burdick realized the seeds were

prepared after publication. Mr. Gelb sent a letter to Mr. Margolin notifying him of this fact. Although Victoria Burdick was aware of the late preparation in early January, when directly questioned at the late January hearing as to the preparation of the seeds, she did not notify the court of this fact. Mr. Lambe, Mr. Gelb, and Ms. Burdick all testified they did not inform the court of the late preparation because they did not believe it was significant. Mr. Gelb testified he notified Mr. Margolin only because he believed the term "seeds" may be a misnomer in light of the late seed preparation. The parties testified that if they had realized the significance of the seed preparation, they would have had every reason to notify the court.

I find the parties' claims credible that despite their awareness of the *fact* of late preparation, they did not realize the significance of it until the Heller, Ehrman attorneys explained it to them. If they had realized the significance, they surely would have had every reason to present it. I believe, however, that the parties should have realized the significance, and thus informed the court, and their failure to do so was unreasonable. The parties should have conducted the necessary investigation to unearth this new evidence prior to the first two hearings on sanctions. If they had conducted a proper investigation, and notified the court of the new evidence, the third hearing would have been completely unnecessary. Instead of investigating, however, the parties presented wholly unreasonable and incredible explanations to the court to justify the factual misrepresentations contained in the TRO application. Their duty to investigate began when Mr. Lambe discovered the three mistaken seeds. The duty became even greater when the court ordered them to defend themselves against Rule 11 sanctions.

Several times during the July 5, 1987 hearing, Finley, Kumble attempted to persuade the court that it had conducted a full investigation in preparation for the December and January Rule 11 hearings. In light of the ultimate explanations offered to this court for the inaccurate information contained in the TRO, however, I find their investigation was unreasonably inadequate. In determining whether a party or attorney should be sanctioned pursuant to Rule 11, the standard used is an objective one of

reasonableness under the circumstances, rather than a subjective one. *Rodgers v. Lincoln Towing*, 771 F.2d 194, 205 (7th Cir. 1985); *Eavenson v. Holtzman, et al.*, 775 F.2d 535, 540 (3rd Cir. 1985). Sanctions are appropriate when brought against an attorney, who, after a reasonable inquiry, knew or *should have known* the argument was unwarranted. *Smith v. United Tr. Union*, 594 F. Supp. 96, 101 (S.D. Cal. 1985) (emphasis added). When it appears that a competent attorney, after reasonable inquiry, could not have formed a reasonable belief that the pleadings were well-grounded in fact, sanctions shall be imposed against that attorney. *Eastway v. City of New York*, 762 F.2d 243, 254 (2d Cir 1985).

In the factual portion of this recommendation, I more thoroughly described the inherent incredulity of two of the proffered explanations. I find a reasonable and competent attorney, indeed a reasonable person, should have known the arguments presented to this court at the December and January hearings were not only unreasonable, but incredible and untenable. A competent attorney could not have formed a reasonable belief, after reasonable inquiry, that the explanations contained in those pleadings and professed at those hearings were well-grounded in fact. When presented with the April 3, 1987 Report and Recommendation, recommending sanctions, Business Guides and Finley, Kumble hired new and separate counsel and apparently finally decided to take this matter seriously.

Business Guides' new counsel, Heller, Ehrman, White & McAuliffe ("Heller, Ehrman"), had less time to conduct an inquiry than did Finley, Kumble, but was able to uncover the new evidence albeit assuredly not without much investigation. Mr. Bomse of the Heller, Ehrman firm explained it took counsel "hundreds of hours" to come up with the ultimate explanation. (RT 7/5/87 p. 122.) The point is, however, Heller, Ehrman, as we suggest would be the response of any reasonable attorney, was not satisfied with the explanations offered to this court due to the incredible coincidences that must be accepted to adopt these explanations. In Mr. Bomse's closing argument at the last hearing he stated: "I don't think that there's anything magical about Heller, Ehrman, let alone about Steve Bomse in this. I think that once any lawyers start asking that question, which is what your

report said, 'How could there be a coincidence? How could there be Bledsoe rather than Blodsoe? How could there be 3845 rather than 3545?', it's not a revelation at all. It is just something that, when you sat down and put into the matter the kind of time we, of necessity, did, because your Honor's charges were not only perfectly understandable, they were very serious. But when you get that kind of a situation, you do what we do: you come up with what I think is quite clearly the explanation." (RT 7/5/87 p. 126-127.) Mr. Bomse goes on to argue that plaintiff and Finley, Kumble should not be faulted for not coming up with the explanation, assumably because they were not in the position to have my conclusions in front of them at the time they were preparing their defense. With this argument, I disagree. The parties had before them these explanations; indeed, *they* presented them. No reasonable person would have been satisfied with these explanations. Discerning the incredible coincidences prevalent in these explanations was no great intellectual feat. Finley, Kumble and Business Guides did not need this court to point out the blatant errors in the logic of their representations. They should have discovered the errors themselves; and not being satisfied with these representations, should have done what Mr. Bomse "of necessity" did: spent the hours needed to find the correct explanation. Mr. Bomse notes finding the correct explanation was necessary because of the seriousness of my recommendations. I believe Heller, Ehrman is selling itself short. I am confident that with the competence this firm has shown, no such seriousness of findings would have been needed to prompt such an investigation. I suggest the "mere" request to defend oneself in a Rule 11 hearing would have been serious enough to prompt a thorough investigation by Heller, Ehrman, as well as any other competent and reasonable attorney. It should not take the threatened imposition of sanctions or discipline and contempt proceedings to bring attorneys to fulfill their duties as officers of the court.

It is noteworthy that Ms. Burdick realized the inherent incredulity of plaintiff's explanations. At the July 5 hearing, when referring to the "Bledsoe/Blodsoe" seed, she stated: "Of course you couldn't choose to change one letter . . . how could you just choose to change just the 'E' to the 'O' and the 'O' to the 'E' and

make that conscious choice and have it come out to be the truth, that kind of coincidence. No, that couldn't have happened. I understand now . . . why that was a problem." (RT 7/5/87 p. 93.) I suggest plaintiff and Finley, Kumble should have understood THEN, at the time of the offering of these incredible explanations, "why that was a problem." I suggest if any one of them had taken the time to simply *evaluate* their arguments, let alone conduct a more thorough investigation, the incredulity of their explanations would have become plainly apparent. They then would have "of necessity" conducted a further investigation. It is for their failure to do both of these that I recommend Rule 11 sanctions be imposed.

Mr. Lambe testified Business Guides relied on Finley, Kumble to determine what evidence they were going to present and what facts they would bring to the court's attention because "[t]hey're [the] professionals." (RT 7/5/87 p. 41-42, 49.) I find there is some force to Lambe's testimony. I believe Finley, Kumble and Business Guides, however, are in the best position to determine who is responsible for the sanctionable activity. A court has the authority to sanction a party jointly and severally because the parties are in the best position to determine who caused the activity to be taken. *Bricklayers v. Martin Jaska, Inc.*, 752 F.2d 1401 (9th Cir. 1985). I therefore recommend sanctions be brought against both plaintiff and Finley, Kumble, jointly and severally.

Many would suggest Mr. Ephraim Margolin, the attorney who represented these parties at the December and January hearings wherein these incredible explanations were first offered should also be sanctioned for taking part in the presentation of such incredible arguments and for himself failing to conduct an appropriate inquiry. "[I]f the duty imposed by [Rule 11] is violated, the court should have the discretion to impose sanctions on either the attorney, the party the signing attorney represents, or both . . . , and the new rule so provides." Fed. R. Civ. Pro. 11, advisory committee's note. "Rule 11 directs that the sanctions should fall upon the individual responsible for the filing of the offending document. In a given case, this could be the attorney, the client, or both." *Chevron U.S.A. v. Hand*, 763 F.2d 1184, 1187 (9th Cir.

1985). Although I think a reasonable person would have recognized the inherent incredulity of the proffered explanations, I believe evidence exists which supports my assumption that Mr. Margolin was not the individual responsible for filing the briefs containing the offending explanations.

There are many citations from the transcript of the July 5 hearing indicating it was Finley, Kumble, not Mr. Margolin, that was intimately involved with the defense of both Business Guides and Finley, Kumble in the Rule 11 action. Upon questioning by the court at the last hearing, Mr. Gelb, a partner at Finley, Kumble, stated he was involved in preparation of the Finley, Kumble attorneys for the December hearing. (RT 7/5/87 p. 58.) He stated that as a member with responsibility for the firm's ethics and practices around the nation, Rule 11 matters come to his attention. (*Id.*) He noted that when Judge Conti initially denied the TRO and it was indicated the matter would be sent to me for further proceedings, his role in this matter began. In January 1987, following the December hearing which involved only Finley, Kumble, and in preparation for the January hearing which was to include only Business Guides, there were a number of conferences in the Finley, Kumble New York offices. (RT 7/5/87 p. 23.) There is no mention of Mr. Margolin even being present at these meetings. He was, after all, the counsel of record; one would assume he would be present at such a meeting held to prepare for the hearing. There is much reference, however, to the presence of two Finley, Kumble partners, Mr. Bamberger and Mr. Gelb. Mr. Gelb explained his role in this case was (1) to conduct an inquiry on behalf of the firm to determine what their performance had been and whether or not it met proper standards; and (2) to ensure the client was protected because a potential conflict of interest existed between the firm and its client. (RT 7/5/87 p. 58-59.) Gelb explained he began to assist Mr. Margolin in his preparation as counsel once it was understood Margolin was to conduct the hearings.

Gelb discussed his extensive conversations with Ms. Burdick and how he felt she would make a "terrific witness." (RT 7/5/87 p. 65-67.) Burdick testified that "many times when [she and Gelb] spoke, [she] brought down [to his office] the parade of

books, everything, the notes, the questionnaires, the papers, the affidavits . . ." (RT 7/5/87 p. 116.) Burdick testified she flew out and met Mr. Margolin *the day before* the hearing. Their meeting was only "a strategy meeting, you know, what was going to be asked . . . how to prepare a situation." (*Id.* at 118.) She acknowledged that the investigations into the matters occurred during her meetings with Finley, Kumble. (*Id.*)

Finley, Kumble is a very large law firm with a great deal of support staff. In this case, the litigation department itself was directly involved. It had personal interests to consider: the defense and therefore possible preservation of an old and profitable client, in addition to its own defense from Rule 11 sanctions. I conclude from all the facts presented, that despite his role as defense counsel at the December and January Rule 11 hearings, Mr. Margolin was not responsible either for the failure to present the correct information or for the presentation of the wholly unreasonable explanations. I therefore do not believe Mr. Margolin should be included in this proceeding.

DATED: September 14, 1987

Respectfully submitted,

FREDERICK J. WOELFLEN,  
Chief, United States Magistrate

# ENDNOTES

1. It should be emphasized that plaintiff's retraction came only after the court made more specific inquiries.

2. The seed that could not be confirmed at these earlier hearings was later sufficiently confirmed at the July 5, 1987 hearing. The court is now satisfied that this seed was valid and plaintiff's representations regarding it were correct.

3. Note this list does not include the three seeds plaintiff retracted upon the court's requests for further information.

NO. C-86-6164 SC (FW)  
 UNITED STATES DISTRICT COURT  
 NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,  
*Plaintiff,*

VS.

CHROMATIC COMMUNICATIONS ENTERPRISES, INC.  
 and MICHAEL SHIPP,  
*Defendants.*

MAGISTRATE'S REPORT AND RECOMMENDATION

1. BACKGROUND

In the underlying action, plaintiff Business Guides is seeking an injunction and damages for copyright infringement involving the alleged improper copying of one of its business directories. Defendant Chromatic Communications has denied infringement and asserts it used only independent sources in preparing its directory.

Plaintiff applied for a temporary restraining order ("TRO") and submitted affidavits under seal and *in camera* alleging that if the information contained in the affidavits was disclosed to the public, the effectiveness of the devices used to apprehend copyright violators would be lost. The trial judge, Honorable Samuel Conti, requested the undersigned magistrate to conduct an evidentiary hearing concerning possible sanctions resulting from plaintiff's misrepresentations to the court in the TRO application. The undersigned has held two evidentiary hearings. The first was ordered to determine whether plaintiff's counsel, Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey ("Finley, Kumble"), should be sanctioned pursuant to Rule 11. The second hearing was ordered to determine whether plaintiff itself should be held subject to Rule 11 sanctions.

We recommend sanctioning both plaintiff and its counsel, Finley, Kumble. We believe plaintiff should be sanctioned for both presenting false information to the court in its TRO application and for what we believe to be the subsequent attempt at a

cover-up. Although we do not think Finley, Kumble should be sanctioned for filing the TRO application, we recommend sanctions against the firm for its part in the subsequent defense of both itself and its client from Rule 11 sanctions.

II. STATEMENT OF FACTS

Plaintiff publishes directories for different areas of retail trade. In 1983, plaintiff began publishing an annual computer-related directory. Plaintiff testified that due to its concern that a competitor might pirate its directory, it planted false information, called "seeds," in its directory. Various street addresses and zip codes were altered by one digit, or names were misspelled so that if the same false information was subsequently printed in a competitor's directory, plaintiff would have strong evidence of copyright infringement.

In early October, 1986, a representative of plaintiff contacted Michael Bamberger, a partner in Finley, Kumble's New York office and told him plaintiff believed that defendant, Chromatic, had copied plaintiff's directory and had reformatted it as a diskette. Plaintiff based this belief on the alleged discovery of plaintiff's seeds in defendant's diskette. Plaintiff based this belief on the alleged discovery of plaintiff's seeds in defendant's diskette. Bamberger contacted Finley, Kumble's Beverly Hills office and requested assistance from a partner, Michael Dempsey, and an associate, Lisa Margolis. Finley, Kumble then prepared to TRO to keep defendant from marketing its directory at the upcoming Comdex trade show. Ms. Margolis signed the TRO application. Finley, Kumble prepared affidavits for plaintiff's sales representative, Victoria Burdick, and publisher, Michael Lambe. The affidavits stated defendant had copied plaintiff's seeds. Burdick's affidavit further identified the entries containing the seeds in attached copies of excerpts from both plaintiff's and defendant's directories. Both Burdick and Lambe testified they reviewed, edited, and executed those affidavits. Both affidavits were filed under seal in support of the TRO application.

In the attached copies to Burdick's affidavit, plaintiff indicated only those entries in the directory which contained the seeds.

Plaintiff did not specifically identify what was incorrect about each entry. Robert Funsten, Judge Conti's law clerk, asked Finley, Kumble to be more specified in its identification of the seeded information. He wanted to know what was incorrect in each identified entry. Lisa Margolis requested this information from plaintiff. She then contacted Mr. Funsten. Ms. Margolis informed Funsten that although plaintiff had asserted in its signed affidavits that defendant copied ten of plaintiff's seeds, plaintiff retracted its claims regarding three of the ten.<sup>1</sup> Margolis then specifically identified the seeded information contained in the remaining seven seeds and provided the alleged "correct" information. For example, she told Mr. Funsten that in one of the entries, COMPUTERLAND, the street address had been altered. She indicated that the address both plaintiff and defendant had printed in their directories, 3545 Bay Road, was incorrect and had been planted by plaintiff as a seed. She told Funsten the correct address was 3845 Bay Road.

Because the affidavits were made under seal and defendants had no opportunity to respond to plaintiff's allegations, and because of the suspicious retraction of three of the seeds, Funsten called one of the entries which he was told contained seeded information to determine the accuracy of plaintiff's representations. He discovered the alleged incorrect information was actually correct. Funsten proceeded to telephone each of the remaining six seeds. He discovered the information contained in four was entirely correct (i.e., neither plaintiff's nor defendant's directories contained the incorrect information plaintiff said they did). Of the three remaining seeds, one could not be confirmed and the falsehood of another is questionable at best. (See below). Only one is a verifiable true seed (i.e., the falsity of the information given to the court has been confirmed).<sup>2</sup>

We have divided this report into two parts. The first is this court's recommendation concerning sanctions against plaintiff itself. The second is our recommendation concerning Finley, Kumble.

## A. SANCTIONS AGAINST PLAINTIFF

Below is the list of seeds which plaintiff alleged defendant copied.<sup>3</sup> Included is the information plaintiff presented to the court as accurate and the information the court has since determined to be accurate.

### SEED #1: *Eagle Micro Systems*

Plaintiff represented to the court that in this seed it printed Eagle Micro Systems' zip code incorrectly: 63830. The correct zip code was alleged to be 36850. Plaintiff asserted defendant copied the incorrect zip code, 63830, and this is evidence of infringement.

The court discovered defendant did *not* copy plaintiff's incorrect zip code. Furthermore, the zip code plaintiff represented as correct, 36850, was incorrect. The correct zip code was that listed by defendant in its directory, 36830. In addition, defendant printed an error in the company's address which plaintiff did not. The street name was correctly printed by plaintiff: GAY STREET. Defendant incorrectly printed GRAY STREET.

At the first hearing where only Finley, Kumble was present, the firm offered no explanation for the factual misrepresentation. At the second hearing, when asked to explain the factual discrepancies, Victoria Burdick told the court only that when making the assertions surrounding Eagle Micro Systems, she relied on plaintiff's master list of seeded information.<sup>4</sup>

Burdick's response, however exculpatory it may be of her own personal conduct, in no way abrogates plaintiff's responsibility for offering patently inaccurate information to the court.

Plaintiff was given ample opportunity to explain the misrepresentations. The only explanation offered was Burdick's assertion that she relied on the master list. This is non-responsive. The court can come to no other conclusion but that plaintiff has not explained the misrepresentations because it could not without implicating itself further.

### SEED #2: *Computerland*

Plaintiff informed the court that this seed was created by printing Computerland's street address incorrectly: 3545 Bay Road. Plaintiff asserted defendant copied this incorrect information and this is evidence of infringement. The correct address was alleged to be 3845 Bay Road.

Upon further investigation, the court discovered the correct address is indeed 3545 Bay Road, as listed by defendant.

At the first hearing, Finley, Kumble offered no explanation for this misrepresentation. At the second hearing, Ms. Burdick testified the information relied upon when making representations to the court came from the actual questionnaire sent to Computerland, i.e., from Computerland itself.<sup>5</sup>

If we are to believe plaintiff's explanation, we must first be persuaded that Computerland inaccurately completed the questionnaire; Computerland would have had to mistakenly list its address as 3845 Bay Road, instead of 3545 Bay Road. We must further be persuaded that plaintiff created 3545 Bay Road as a seed and it was entirely by coincidence that the seeded address, created by plaintiff, turned out to be the correct address. The court finds such an incredible set of circumstances very difficult to believe.

### SEED #3: *Price Electronics Corporation*

Plaintiff represented to the court that this seed was created by planting an entirely incorrect address: 204 West Carpenter Avenue, Wheeling, Illinois, 60090. Plaintiff asserted defendant copied this incorrect address and this is evidence of infringement. The correct address was alleged to be 1813 Elm Dale Avenue, Glenview, Illinois, 60025.

The court discovered the correct address is 204 West Carpenter Avenue, Wheeling, Illinois, 60090, as listed by defendant.

At the first hearing, Finley, Kumble's New York partner, Mr. Bamberger, testified that plaintiff listed the address to which Price Electronics was planning to move as a seed. At the second hearing, Ms. Burdick offered the same explanation.

We first note that plaintiff's purpose in using seeds was to have strong evidence that a competitor had copied its directory. Seeded information should involve such things as misspellings, numerical alterations, or anything else unlikely to be found in a competitor's directory. Here, plaintiff asks us to believe that it chose an address to which it knew Price Electronics had already moved or would soon be moving<sup>6</sup>, as a seed.

First, it makes no sense for plaintiff to have listed any other address than that address to which it knew Price Electronics had moved or would soon be moving. Second, nothing indicates defendant would be unable to obtain this new or future address from Price Electronics. It would therefore make no sense for plaintiff or defendant to list Price Electronics' former or soon to be former address when the new address was available. We thus doubt the good faith of plaintiff's explanation.

### SEED #4: *Computer Discount of America*

Plaintiff asserted this seed was created by printing the company's name incorrectly: COMPUTER DISCOUNT OF AMERICA. The correct name of the company was alleged to be COMPUTER DISCOUNT OF NEW JERSEY. Plaintiff contends defendant's inclusion of the name COMPUTER DISCOUNT OF AMERICA in its directory is evidence of infringement.

Upon further investigation this court was informed this company is now called WORLD OF COMPUTERS, but was formerly called COMPUTER DISCOUNT OF AMERICA, as listed by defendant. Although there was much confusion over this seed at the first hearing, plaintiff's publisher later filed a declaration purporting to explain the misrepresentation. The court also questioned Ms. Burdick about the misrepresentation at the second hearing. Plaintiff asserted that in 1983 this company informed plaintiff its name was COMPUTER DISCOUNT OF AMERICA. In 1984, plaintiff learned that the retail store was not called COMPUTER DISCOUNT OF AMERICA, but COMPUTER DISCOUNT OF NEW JERSEY. Plaintiff alleged it continued to list the company name as COMPUTER DISCOUNT OF AMERICA as a seed.

Plaintiff asserts that after the court's investigation began plaintiff discovered COMPUTER DISCOUNT OF AMERICA was the name of the company's mail order operation. Plaintiff contends the mail order operation changed its name to WORLD OF COMPUTERS and is now and always has been a separate and distinct entity from the retail store, COMPUTER DISCOUNT OF NEW JERSEY.

As plaintiff asserts, the retail store and the mail order operation are separate and distinct entities. It appears that the information defendant was attempting to list was that of the mail order operation, not the retail store. The address and phone number defendant listed below the company's name is that of the mail order branch, not the retail store. (Alternatively, defendant could have mistakenly included the mail order name, address, and phone number for the retail store.) The information plaintiff listed, however, pertained to the retail store. Defendant therefore properly listed COMPUTER DISCOUNT OF AMERICA as the name of the entity it was listing; plaintiff improperly printed it. This court finds no evidence of infringement. Furthermore, we question the good faith of plaintiff's allegations. When preparing the affidavits in support of the TRO, plaintiff should have noticed the address and phone number it listed were different than those listed by defendant. Moreover, after the court questioned plaintiff's representations, surely plaintiff would have then noticed the differences in address. Plaintiff continues to contend, however, that defendant's use of the name COMPUTER DISCOUNT OF AMERICA is evidence of infringement.

**SEED #5: Premier Source of Distributing, Inc.**

Plaintiff asserted this seed was created by spelling the company's sales manager's name incorrectly: BLEDSOE. Plaintiff alleged the true spelling was BLODSOE. Plaintiff asserted defendant's inclusion of the incorrect spelling, BLEDSOE, is evidence of infringement. The court discovered the correct spelling of the sales manager's name is BLEDSOE, as defendant listed.

At the first hearing, Mr. Bamberger testified Premier Source informed plaintiff that the sales manager's name was BLODSOE.<sup>7</sup> Bamberger testified it was only a coincidence that the

information represented to the court as incorrect seeded information (BLEDSOE) was actually correct. At the second hearing, Ms. Burdick offered the same explanation.

At both hearings, plaintiff and Finley, Kumble offered a document in support of their explanation. The document was marked into evidence as Exhibit No. 1-N, a copy of which is attached hereto. The document is purportedly a copy of a questionnaire plaintiff sent to Premier Source which Premier completed and then returned to plaintiff. On side two of the questionnaire, where it asks the name of the sales manager, is printed the name DON BLODSOE.

Although this court is aware that by doubting the veracity of plaintiff's allegations concerning this seed, it necessarily questions the genuineness of the supporting document, we think a plaintiff capable of offering what we perceive as deceptive explanations in support of its defense, not beyond offering a document of questionable legitimacy.

We note that in order for the court to believe defendant's explanation, plaintiff must first persuade us that Bledsoe's company incorrectly spelled his name on the questionnaire. More importantly however plaintiff must persuade us that it was merely coincidental that plaintiff chose to alter, among thousands of listings contained in the directory, first, this particular listing; second, this particular word in the listing; and third, this particular letter in the word, resulting in an alteration which turned out to be the true spelling of this man's name.

We note plaintiff has asked us to believe that another very similar coincidence occurred in seed number two. We find the occurrence of two such similar and incredible coincidences difficult to believe.

**SEED #6: NFR Computer Room**

Both plaintiff and Finley, Kumble represent that this entry is entirely fictitious. They allege no such company exists. Plaintiff contends it invented the name and address as a seed. They assert the inclusion of this totally fictitious company in defendant's directory is evidence of infringement.

Although this may indeed be a totally fictitious company (i.e., an accurate seed), this court cannot verify plaintiff's allegations without involving itself in investigations it believes to be beyond the court's ambit. The other seeds included telephone numbers and were therefore simple to verify. The NFR seed is a New York company with no telephone number listed. Even though at this point we question the veracity of any of plaintiff's representations, the court will not go to extreme lengths to verify the existence or nonexistence of this company. We shall thus give plaintiff the benefit of the doubt and assume its allegations regarding this seed are correct.

#### SEED #7: *Computers and Applications*

Plaintiff represents it created this seed by incorrectly printing the store manager's name: DAVID CHOY. Plaintiff asserts the correct spelling is CHOI. Plaintiff contends inclusion of the misspelled CHOY in defendant's directory is evidence of infringement.

The court has discovered the correct spelling of the sales manager's name is indeed CHOI. This is the only instance where plaintiff's representation to the court proved correct.

Rule 11 of the Federal Rules of Civil Procedure provides in pertinent part:

Every pleading, motion, and other paper of a party represented by an attorney shall be signed by at least one attorney of record in his individual name . . . A party who is not represented by an attorney shall sign his pleading, motion, or other paper . . . The signature of an attorney or party constitutes a certificate by him that he has read the pleading, motion, or other paper; that to the best of his knowledge, information, and belief formed after reasonable inquiry it is well grounded in fact and . . . that it is not interposed for any improper purpose . . .

We must first address whether Rule 11 applies to a represented party. The text of Rule 11 is silent regarding the duties of a party represented by counsel. In the advisory committee's note, the committee refers to conduct of the "signer." Plaintiff argues that

since it was represented by counsel, plaintiff itself should not be held subject to sanctions. The advisory committee also notes however that "[i]f the duty imposed by the rule is violated, the court should have the discretion to impose sanctions on either the attorney, *the party the signing attorney represents*, or both . . . , and the new rule so provides." Fed. R. Civ. Pro. 11, advisory committee's note (emphasis added). "Rule 11 directs that the sanctions should fall upon the individual responsible for the filing of the offending document. In a given case this could be the attorney, the client, or both." *Chevron U.S.A. v. Hand*, 763 F.2d 1184, 1187 (9th Cir. 1985).

We think plaintiff should be held responsible for filing this TRO application. Plaintiff provided counsel with these "facts" and alleged such facts to be evidence of defendant's infringement. We therefore recommend holding plaintiff in violation of Rule 11. As laid out more extensively above, we find plaintiff's allegations not "well grounded in fact." We also think its allegations were "interposed for [an] improper purpose."<sup>8</sup>

#### B. SANCTIONS AGAINST FINLEY, KUMBLE

We believe Finley, Kumble should not be sanctioned for filing the TRO application. The attorney's duty to inquire into the validity of a client's allegations is "one of reasonableness under the circumstances." Fed. R. Civ. P. 11 advisory committee note. "[W]hat constitutes a reasonable inquiry may depend on such factors as how much time for investigation was available to the signer [or] whether he had to rely on a client for information as to the facts underlying the pleading, motion, or other paper . . ." *Id.*

Here, plaintiff was an old client of Finley, Kumble and had been publishing business directories for many years. Finley, Kumble testified it relied on plaintiff's information because plaintiff is a sophisticated business entity which had successfully litigated copyright infringement cases in the past. The firm asserted it believed there was an urgent need for the TRO in order to prevent defendant from competing against plaintiff at the upcoming Comdex trade show. Because of the time pressure, Lisa Margolis testified she worked all weekend preparing the application. Finley,

Kumble requested its client to execute affidavits specifying the basis for its claims and it gave plaintiff the opportunity to review and edit them. We believe the firm undertook a reasonable investigation *under the circumstances*. Considering the longevity of the relationship between the firm and its client, and especially in light of the severe time constraints under which Finley, Kumble found itself, we do not recommend holding the firm subject to Rule 11 sanctions.

This does not end our inquiry however. Although we think sanctions are inappropriate for the conduct surrounding the application for the TRO, we question the firm's actions in defense against those sanctions.

Finley, Kumble alluded that once it discovered the court planned to hold an evidentiary hearing regarding the appropriateness of sanctions for the misrepresentations found in the TRO application, it conducted an investigation. Assumably, Finley, Kumble requested explanations from its client.<sup>9</sup> When questioned at the hearing, Finley, Kumble offered the court the same explanations as did plaintiff. If Mr. Bamberger had taken the stand and said simply we relied on our client and this is what it told us, this court would not recommend sanctions. Bamberger, however, took the stand and presented those explanations as his own. As previously noted we find such explanations entirely untenable. We further find it impossible to believe Finley, Kumble truly believed such remarkable facts and coincidences. We think Finley, Kumble attempted to protect an old and profitable client. Lying on the stand, under the penalty of perjury, carries advocacy too far. We suggest this sort of misrepresentation is of a most serious kind. We therefore recommend disciplining these attorneys pursuant to Local Rule 110-7.<sup>10</sup>

"In the event any attorney practicing before the court engages in conduct which may warrant discipline or other sanctions, the court or any judge may initiate proceedings for contempt under Title 18 of the United States Code and Rule 42, Federal Rules of Criminal Procedure, or may, after reasonable notice and an opportunity to show cause to the contrary, take any other appropriate disciplinary action against the attorney. In addition to the foregoing, the court or

any judge may refer the matter to the disciplinary body of any court before which the attorney has been admitted to practice."

DATED: April 3, 1987

Respectfully submitted,

FRANK WOELFLEN  
Frank Woelflen, Chief  
United States Magistrate

## ENDNOTES

<sup>1</sup>It should be noted that plaintiff's retraction came only after the court made more specific inquiries.

<sup>2</sup>In addition, one of the "seeds" that actually contained correct information contained an independent error in defendant's director. Defendant erred in spelling the street name; plaintiff did not. This suggests defendant did *not* copy plaintiff's directory.

<sup>3</sup>Note this list does not include the three seeds plaintiff retracted upon the court's request for further information. Note also that none of this information was provided to the court until the court requested further specificity.

<sup>4</sup>The master list of seeds was apparently prepared by gathering altered information taken from questionnaires, together with the "correct" information, and placing the information side by side on one piece of paper.

<sup>5</sup>She testified however that she was unable to produce this questionnaire because plaintiff saves hundreds of thousands of questionnaires and retrieval of a specific questionnaire can take months.

<sup>6</sup>At the second hearing, Ms. Burdick testified that Price Electronics' address changed in 1985. The directories at issue are for the years 1985 and 1986.

<sup>7</sup>This court acknowledges this testimony amounts to hearsay evidence but due to the uniqueness and lack of formality of the hearing, we chose to allow the testimony to lend whatever weight we believed appropriate.

<sup>8</sup>The validity of two of plaintiff's seed is irrelevant to this action. We believe the intentional misrepresentation to the court of even one seed is sufficient to warrant these sanctions.

<sup>9</sup>We have not entirely dismissed the idea that Finley, Kumble may have been aware of the misrepresentations in support of the TRO application from the beginning. We have no evidence supporting this proposition, however, and therefore assume the firm was not in collusion with its client at this time.

<sup>10</sup>Although we can make no specific recommendations as to which attorneys within the Finley, Kumble firm should be sanctioned, we do believe Lisa Margolis, although intimately involved in the application for the TRO, was sufficiently removed from the defense of this action. Therefore, except as in regard to her affiliation with the firm, we recommend no sanctions be personally levied against her.

## DISTRICT OF CALIFORNIA

C 86 6164 SC

Exhibit No. 1-N

Date Entered: \_\_\_\_\_

WILLIAM L. WHITTAKER, Clerk

By: \_\_\_\_\_  
Deputy Clerk

Dear Computer and Software Distributor:

We are updating our database of computer and software distributors from which our directory of "Computer & Software Distributors" is derived. Our research has identified you as a computer and software distributor not presently on our file. To be included — free of charge — please answer the questions below and return this form to us in the enclosed post-paid return envelope.

This questionnaire should be answered by company headquarters only; if we inadvertently mailed to a branch office — please forward this to your headquarter.

Please enclose a list of your accounts, if available.

Thank you for helping us complete the most authoritative and comprehensive database of computer and software distributors in the U.S.

Cordially,

Michael Lambe  
Executive Editor

1. Company Name: Premier Source Dist. Inc.
2. Headquarter Address: 1882 McGaw, Irvine, CA 92714
3. Headquarter Telephone: (714) 261-2011
4. What Product Lines do you distribute?
  - ☒ Computers (581) PLEASE LIST ALL BRAND NAMES AND MODEL NUMBERS/NAMES  
Zenith-Models Z-100, 150, 160, 2T01, 05, 06  
Televideo-Models TS-802, 803, 802H, 806, 816, 806H, 1603, 1600 series, 1605, TV01, 03, 04, 07, 08, 10, 11, 12, & 13
  - ☒ Software: ☒ Systems (591) ☐ Video (594)  
☐ Personal (592) ☐ Educational (596)  
☐ Entertainment (593) ☒ Business/Professional (595)
  - ☒ Other: ☒ Monitors (582) ☐ Accessories (588)  
☒ Storage Devices (583) ☐ Supplies (589)  
☒ Printers (584) ☐ Books/Magazines (760)  
☒ Modems (585)
5. Do you operate retail locations as well as distribute? ☐ Yes. ☒ No. If yes, what % retail? \_\_\_\_\_  
And how many stores do you operate? \_\_\_\_\_  
Where are they located? (city, state) \_\_\_\_\_
6. Do you manufacture as well as distribute? ☐ Yes. ☒ No.  
If yes, what % manufacturing \_\_\_\_\_
7. Who do you distribute to:
  - ☒ Computer Stores ☒ Systems Houses
  - ☒ Mass Merchandisers (Department Stores, Discount Stores, etc.) ☒ Office Supply/Equipment Dealers
  - ☐ End-Users ☐ Consumer Electronics Stores
  - ☐ Other Distributors ☐ Other (Please Specify) \_\_\_\_\_
8. In what states do you have accounts? \_\_\_\_\_
9. How many full time sales people do you employ? 10
10. How many trucks do you operate? 2

11. What is the total square footage of your warehouse(s)?  
24,000

12. Do you operate any subsidiaries, divisions and/or branches (other than sales offices)? ☒ Yes. ☐ No.

Street Address	City	State	Zip	Manager
4455 E. Camelback	Phoenix	AZ	85018	
8388 Vickers	San Diego	Calif.	92111	

13. Is your company a subsidiary or division of another company? ☐ Yes. ☒ No. If yes, who is your parent company? \_\_\_\_\_  
Hdq. location? \_\_\_\_\_  
If no, ☐ public or ☐ private company.

14. In what year was your company founded? 1980

15. What percentage of your annual sales are in the following areas?

Distribution .....	<u>100</u>	%
Retail Store Sales .....	_____	%
End-User Sales .....	_____	%
Manufacturing .....	_____	%
Other Operations please specify: _____	_____	%
Total .....	_____	100%

16. Key Personnel:

Owner	<u>Tom Dodge</u>
President	<u>Tom Dodge</u>
VP	_____
Marketing Mgr.	_____
Advertising Mgr.	_____
Sales Mgr.	<u>Don Blodsoe</u>
Technical Mgr.	_____
Customer Support Mgr.	_____
Hardware Mgr.	_____
Software Mgr.	_____
Buyer	_____
Buyer	_____
Other	<u>Don Coley — General Manager</u>

17. What was your annual sales for last full year? \$ \_\_\_\_\_  
And how is it broken out by category in percent?

Computers .....	_____	%
Peripherals .....	_____	%
Software .....	_____	%
Accessories/Supplies .....	_____	%
Books/Magazines .....	_____	%
Other please specify: _____	_____	%
Total .....	_____	100%

Information provided by: \_\_\_\_\_  
Date: \_\_\_\_\_

Please return filled-in form to:

CHAIN STORE GUIDE,  
425 Park Ave.,  
New York, N.Y. 10022.

Thank you.

No. 89-1500

Supreme Court, U.S.

FILED

JUN 11 1990

JOSEPH F. SPANIOL, JR.  
CLERK

In The  
**Supreme Court of the United States**  
October Term, 1989

BUSINESS GUIDES, INC.,

*Petitioner,*

vs.

CHROMATIC COMMUNICATIONS ENTERPRISES, INC.  
and MICHAEL SHIPP,

*Respondents.*

**BRIEF IN OPPOSITION TO PETITION  
FOR WRIT OF CERTIORARI**

NEIL L. SHAPIRO  
Counsel of Record  
PATRICIA A. PERKINS  
COOPER, WHITE & COOPER  
101 California Street  
16th Floor  
San Francisco, CA 94111  
Telephone: 415/433-1900

*Attorneys for Respondents  
Chromatic Communications  
Enterprises, Inc. and  
Michael Shipp*

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## I. STATEMENT OF THE CASE

Business Guides, Inc., a division of the large New York-based publishing concern Lebhar-Friedman, commenced the instant action against defendants Chromatic Communications Enterprises, Inc. and Michael Shipp (collectively "Chromatic") by seeking a Temporary Restraining Order against alleged copyright infringement. The primary documents upon which relief was sought were filed with the District Court under seal. Those documents, signed by plaintiff and its counsel, asserted that defendants had published a computer software dealer directory which contained ten erroneous listings ("seeds"), which were identical to listings in plaintiff's directory, and which established conclusively that defendants had copied plaintiff's directory.<sup>1</sup>

The law clerk to the Hon. Samuel Conti telephoned plaintiff's counsel two or three days before the scheduled hearing on the application for a Temporary Restraining Order, and requested specific information about the ten alleged seeds. When counsel in turn checked with Michael Lambe, plaintiff's Director of Research, he quickly determined by virtue of reference to other company directories, and to a zip code directory, that at least four of the ten allegedly copied listings were correct, and would not support a claim of copying. Rather than check the other six, however, Mr. Lambe simply executed a supplemental declaration verifying their accuracy. In so doing

<sup>1</sup> As is explained in more detail, *infra*, "seeds" are errors intentionally placed in a publication. If another publication contains the same errors, there exists at least a strong inference of copying.

he implied (and in a later declaration stated) under penalty of perjury that he knew the facts contained in his declaration of his own personal knowledge, and he swore that they were true.

Because the matter was going to be heard without providing defendants the opportunity to review the evidence upon which the claim was based, Judge Conti's law clerk spent perhaps one hour telephoning the six remaining so-called uncontrovertible pieces of evidence of copying, and found that five of the six were actually listed correctly by both plaintiff and defendants, and were not "seeds". The Court, concerned that the papers filed before it under oath were factually incorrect, referred the matter to United States Magistrate Frederick Woelflen to hold evidentiary hearings with plaintiff, but outside the presence of defendants, to determine whether or not Rule 11 had been violated.

After exhaustive evidentiary hearings, and two published opinions, the Court found Business Guides guilty of multiple violations of Rule 11, and further found that its copyright infringement action was factually without merit. The Court both dismissed the action and awarded monetary sanctions to defendants in precisely that sum of money they were required to spend to defend against the claims of plaintiff, and to seek an award of sanctions.

Business Guides appealed that ruling to the United States Court of Appeals for the Ninth Circuit ("Ninth Circuit"), but with little benefit. The Ninth Circuit clearly found that the execution of a declaration under the circumstances described above constituted a clear and unquestioned violation of Rule 11, as did the initiation of

the lawsuit itself without reasonable inquiry, but did find that a third alleged violation of Rule 11 - based on erroneous and misleading oral statements made to the Magistrate - could not constitute a violation of Rule 11 because it did not involve execution of a paper filed with the Court. Because it was reversing one of the three Rule 11 violations which formed the basis of District Court's actions, the Ninth Circuit remanded the matter to the District Court to determine whether or not that change in number of violations would cause a change in resolution. The District Court promptly ordered that it would not, and reinstated both the dismissal and the monetary sanctions in the sum of \$13,865.66.

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## II. STATEMENT OF FACTS

Business Guides is a division of Lebhar-Friedman, an internationally-known publisher of a variety of business directories, including the computer software dealer directory at issue in the underlying action. At the time the action was filed in 1986, plaintiff sold its printed directory for \$389, and sold a diskette version for \$1,125 (CR9:3). During 1985 and 1986, Michael Shipp ran a small computer publishing operation out of a garage in Walnut Creek, California, under the name of Chromatic Communications Enterprises, Inc. In 1987 the business was moved to Benicia, where it is operated out of Mr. Shipp's home. Chromatic publishes a competing directory of computer software dealers at a substantially lower price. Chromatic's price at the time here relevant for its printed directory was \$247.50, and its diskette sold for \$595.00.

Spurred by the dramatic difference in retail price, Business Guides began investigating Chromatic in 1985 for possible copyright infringement. (CR7:5; 9:2). To catch infringers, Business Guides normally "seeds" its directory with fictitious listings (Type A seeds), and listings which contain intentional typographical errors (Type B seeds). (CR35). If these seeds appear in a competing directory, it is at least some evidence to Business Guides that the listing may have been copied unlawfully.

In mid-October, 1986, Business Guides accused Chromatic and Shipp of copying its directory by directing its counsel to send a "Cease and Desist" letter to said defendants. (CR8:3). In response to that letter, Shipp invited Business Guides to examine Chromatic's records to prove that no copying had occurred. (CR35:Ex.A). Business Guides declined Shipp's invitation. Instead, Business Guides filed a copyright infringement action and applied for a Temporary Restraining Order ("TRO") to prevent Chromatic from displaying its directory in an upcoming trade show. (CR1, 6, 7, 8:3).

In its pleadings, Business Guides listed ten "seeds" which it alleged appeared in Chromatic's diskette directory. It submitted to the Court, under seal, its Master Seed List, and affidavits of Business Guides employees purporting to describe how the list was compiled.

Prior to the TRO hearing, an employee of the District Court sought details of the errors contained in the seeds by conferring with counsel for Business Guides. Following the most cursory of investigations (reference to prior directories and to a zip code directory), Business

Guides readily found that four of its ten seeds were invalid, and expressly withdrew them. (CR54:5-8).

This cursory investigation revealed that four of the ten allegedly copied, incorrect seeds were, in fact, actually correct listings. Nevertheless, Business Guides failed to undertake a more probing, or indeed any further, inquiry.<sup>2</sup> Rather, it tendered the Supplemental Declaration of Michael Lambe, which set forth under oath the "true facts" with respect to the remaining six seeded entries. (CR35, Ex.J). This declaration - signed by Business Guides' Director of Research - was patently false as to five of the six seeds discussed.

Even though Business Guides suspected Chromatic of infringement for nearly two years prior to initiating the action (CR54:5), Business Guides insisted that it did not have enough time to conduct a thorough investigation. In approximately one hour, however, the District Court completed its own telephone investigation, and was able to demonstrate beyond doubt that five of the six alleged seeds were printed accurately by both parties, hardly an indicator of copying. After the record was unsealed in April of 1988 and Chromatic was able to review the evidence against it for the first time, it was able to establish by uncontroverted evidence that the

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<sup>2</sup> "I also attempted to check the accuracy of the seeds that were easily verifiable. I did this by checking Business Guides' 1985 and 1986 directories, and the U.S. Post Office zip code directory. I did not attempt to find questionnaires for years past warehoused in Long Island, nor did I make phone calls to any of the listed companies." Declaration of Michael Lambe, 4/27/87, p. 7. (CR54:7)

remaining seed had been planted in Chromatic's directory by Business Guides itself. (CR76).

Stated another way, Business Guides was willing to devote 99 hours to preparing the papers necessary to seek its Temporary Restraining Order (CR:24, Exhibit B, ¶25); it was not willing, however, to take an hour or two to view the records of defendants to determine whether or not they had independently created their directory, as opposed to copying plaintiff's, nor was it willing to spend the matter of minutes spent by the District Court to at least make certain that its claim had some legitimate factual basis.

Based on the results of the Court's research, it referred the matter to Chief United States Magistrate Frederick Woelflen for evidentiary hearings and a recommendation as to whether Business Guides, its counsel, or both, should be sanctioned. The magistrate issued two lengthy reports, both concluding that Business Guides failed to conduct a reasonable inquiry into the facts before plunging headlong into frivolous litigation. The District Court determined that the failure by Business Guides violated Federal Rule of Civil Procedure 11, and ordered Business Guides to pay Chromatic's attorneys' fees of \$13,865.66. In addition, both for violation of Rule 11 and because there was no remaining factual basis for the action, the Court imposed as well the sanction, or procedural result, of dismissal. *Business Guides v. Chromatic Communications Enterprises, Inc.*, 121 F.R.D. 402, 406 (N.D.Cal. 1988) (CR84).

On appeal, the United States Court of Appeals for the Ninth Circuit concurred with the rulings of both Magistrate Woelflen and the District Court, save and except for its reversal of a third Rule 11 violation premised upon oral statements made to the Magistrate. Finding Rule 11 inapplicable to oral statements, the Court of Appeals simply affirmed the two violations of Rule 11 involving execution of documents, and remanded the matter to the District Court so that it might determine whether dismissal and monetary sanctions were still appropriate. It did.

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### III. REASONS WHY THE PETITION SHOULD BE DENIED

#### A. Although a Technical Conflict May Exist Between the Second Circuit and the Ninth Circuit, the Conflict is Minimal in Scope and Effect, and Does Not Warrant Intervention by This Court.

##### 1. The Technical Conflict, Upon Careful Examination, Barely Qualifies as Such.

To identify a conflict between circuits justifying possible review by this Court, petitioner relies exclusively on the Second Circuit decision in *Calloway v. Marvel Entertainment Group*, 854 F.2d 1452 (2nd Cir.), rev'd in part on other grounds sub nom, *Pavelick & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S.Ct. 456 (1989). There the Second Circuit examined the propriety of sanctioning a represented party on a subjective basis, rather than on an objective basis. In the instant case, by contrast, the Ninth Circuit adopted for such a party the same objective

standard applicable to attorneys and unrepresented parties.<sup>3</sup> Although the cases are on superficial analysis seemingly at odds on a fairly pivotal theoretical point, a careful examination of the facts of the two cases demonstrates that they are not, in fact, terribly different in their approach.

In *Calloway*, the District Court had ordered substantial sanctions against both the plaintiff, and his counsel. The Second Circuit affirmed the award against counsel, but reversed it as to the party. In so doing, it noted that the party was "mentally ill"<sup>4</sup> and concluded that when a represented party "has participated in the filing of a paper signed by the attorney or has signed a paper himself but did not realize that such signing was wrongful,"<sup>5</sup> sanctions against the party are not appropriate.<sup>6</sup> The

<sup>3</sup> See, e.g., *Zaldivar v. City of Los Angeles*, 780 F.2d 823 (9th Cir. 1986); *Unioil, Inc. v. E. F. Hutton & Co., Inc.*, 809 F.2d 548 (9th Cir.), cert. denied, 484 U.S. 22, 108 S.Ct. 83 (1987); *Golden Eagle Dist. Corp. v. Burroughs Corp.*, 801 F.2d 1531 (9th Cir. 1986).

<sup>4</sup> "In addition, there was substantial evidence that Calloway was mentally ill and had engaged in bizarre behavior unconnected to the litigation." *Calloway, supra*, 854 F.2d at 1465. "In the present case, Calloway's signing of the affidavit and answers to interrogatories were seriously wrongful. Judge Sweet, however, appears to have believed that Calloway's contacts with reality were so fragile that he may not have understood that swearing to the facsimile claim was culpable and may have been merely trying to accommodate LeFlore [his counsel]." *Calloway, supra* at 1475.

<sup>5</sup> *Calloway, supra* at 1474.

<sup>6</sup> By contrast, there is no evidence here of any mental deficiency on the part of Mr. Lambe. Mr. Lambe had to know

(Continued on following page)

Second Circuit did not say that sanctions against a party who knew or should have known of the wrongful conduct are inappropriate; rather, it stated that sanctions should be awarded in such a circumstance.

The Second Circuit could have reached precisely the same result by applying the objective standard – was Mr. Calloway's conduct, when weighed objectively against that of the reasonable person suffering from the same mental handicap, sufficiently wrongful to justify an award of sanctions? Given the language of the Court in *Calloway*, one wonders whether the articulated adherence to a subjective standard was not simply application of an objective standard to one with mental deficiencies. If the decision of the Second Circuit is viewed in that light, no conflict even exists.

## 2. The Asserted Conflict Affects So Few Cases As To Make Questionable the Propriety of Resolution of Such a Minor Conflict by This Court.

Petitioner, on page 12 of the Petition, and relying on Schwarzer, *Rule 11 Revisited*, 101 Harv.L.Rev.1013 (1988), repeats the estimate that over 600 cases enforcing or interpreting Rule 11 had been reported in the five years following the 1983 amendments to Rule 11. Unmentioned, however, is the incredibly small percentage of those

(Continued from previous page)

that his statements under penalty of perjury were false – he had no personal knowledge of the facts, and he hardly knew them to be correct; they weren't.

roughly 600 cases that involve sanctions against a represented party, rather than sanctions against counsel. Respondents have found fewer than a literal handful of such cases, and it is reasonable to assume that petitioner would have identified volumes of such cases, if they existed. Rather than the blizzard of Rule 11 cases implied by petitioner, sanction awards against represented parties represent but a flake or two. This Court's resources are needed far more in other areas than in one with such little activity, or conflict.

**3. Petitioner Violated Rule 11, Whether Its Conduct Is Judged By an Objective Standard Or By a Subjective Standard.**

Missing entirely from petitioner's representations before this Court is any detailed or accurate description of the conduct which led to the findings of multiple violations of Rule 11, and to the imposition of an appropriate sanction. When that conduct is weighed under any standard articulated by any circuit, both the finding of Rule 11 violations, and the imposition of significant sanctions, remain wholly appropriate.

As is set forth above, the centerpiece of plaintiff's allegation of copyright infringement was a declaration which described the process of seeding petitioner's directory, and which stated in general terms that ten such seeds, instances of copying, were found in defendants' directory. Because the papers were filed under seal, which would deprive the defendants of an opportunity to respond meaningfully to the factual allegations of petitioner, the District Court inquired of petitioner's counsel

some specificity with respect to the seeds, and specifically inquired as to what in petitioner's seeds were incorrect, and thus demonstrated copying on the part of respondent.

When petitioner's counsel asked petitioner to elaborate on the ten seeds, its primary declarant checked a few of the seeds against prior directories and against zip code directories, and found very quickly that four of the ten allegedly incorrect listings were in fact correct, as were the listings in defendants' directory. Despite such notice, Business Guides made no effort whatsoever to check the other six seeds, assertedly because the key declarant had but a couple of hours to conduct such a review.<sup>7</sup> Thus, Michael Lambe - a 14-year employee with the title of Director of Research, and with responsibility for compiling seeds specifically for use in infringement actions - executed the Supplemental Declaration of Michael Lambe, a declaration executed in gross and obvious violation of Rule 11.

The referenced Supplemental Declaration of Michael Lambe implies (as others state) under penalty of perjury that he knows the facts set forth therein of his own personal knowledge, and that said facts are true and correct. (CR35, Exhibit J; CR54) Mr. Lambe could not possibly have known those facts of his own knowledge -

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<sup>7</sup> It bears repeating that the District Court law clerk, despite lacking the experience of Mr. Lambe, conducted precisely such a review in approximately one hour or less. Perhaps that is because the law clerk was willing to expend the very limited effort petitioner would not undertake to make certain the action had merit. See footnote 2, *supra*.

Mr. Lambe was relying on nothing more than the seed list prepared by Victoria Burdick, another employee, and not by him. (CR40) Thus, Michael Lambe clearly did not know the facts set forth in his declaration of his own personal knowledge, as he implied he did. Furthermore, as the District Court's law clerk was able to determine quite readily, the facts in Mr. Lambe's supplemental declaration were false. It cannot be contested that signing a declaration under oath which swears that one knows facts that one does not know, and swears that those facts are true when in fact they are false, constitutes perjury, as well as a classic violation of Rule 11. This violation of Rule 11, flowing from the execution of a false declaration, stands as a violation whether reviewed against a subjective standard, or an objective one.

Subjectively, a man of Mr. Lambe's station within his company, job duties, and experience, cannot reasonably be expected to convince any trier of fact that he did not know it was wrong to swear under oath that he knew certain facts when he did not, or to the accuracy of facts which he not only did not know were accurate, but had every reason to believe, based on his cursory check of other entries in the same declaration, were inaccurate. Based on a subjective evaluation, Rule 11 was violated.

Equally obvious is the violation of Rule 11 when Mr. Lambe's conduct on behalf of petitioner is evaluated against an objective standard. It was highly unreasonable for anyone in Mr. Lambe's position to swear as he did, given that he clearly did not know the facts to which he was swearing. Stated another way, it is unreasonable to swear under oath that one knows facts that one doesn't, and that one knows of his own knowledge that those

facts are correct, when one has no such knowledge, and they are not correct. Petitioner, and Mr. Lambe, could have conducted a "reasonable inquiry," but simply couldn't be bothered to do so. There seems relatively little purpose for this Court to accept this matter for review when the ultimate outcome will be identical under either standard considered by this Court.

**B. The Proper Standard Is an Objective One, Not a Subjective One, Under the Terms of Rule 11, Its History, The Cases Interpreting It, and Common Sense.**

In order to determine the intent of the drafters of Rule 11, clearly a relevant inquiry in determining the proper application of the Rule, one need only begin with the language of the Rule itself.

"Every pleading, motion, and other paper of a party represented by an attorney shall be signed by at least one attorney of record in the attorney's individual name, whose address shall be stated. A party who is not represented by an attorney shall sign the party's pleading, motion, or other paper and state the party's address . . . the signature of an attorney or party constitutes a certificate by the signer that the signer has read the pleading, motion, or other papers; that to the best of the signer's knowledge, information, and belief formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or good faith argument for the extension, modification, or reversal of existing law, and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation."

Thus, under the terms of the Rule itself, the proper inquiry in the instant matter is whether or not Michael Lambe, signing a supplemental declaration on behalf of his employer, by so doing certified, and falsely, that "to the best of the signer's knowledge, information, and belief formed after reasonable inquiry it is well grounded in fact." If the question properly becomes "did Mr. Lambe form a good faith belief in the accuracy of his Supplemental Declaration *after a reasonable inquiry into the facts*, the answer must be in the negative, and the violation found by the District Court, and the Ninth Circuit, was proper.

When Mr. Lambe, an expert in the area of seeds, performed a cursory examination of four of the seeds on the list of ten, and quickly found that all four should not have been on the list, his failure to conduct *any* further inquiry was simply not reasonable, and the Rule was violated. Had Mr. Lambe conducted such a reasonable inquiry, he would have determined that his Supplemental Declaration was without any basis in fact, he would have determined that the lawsuit based upon it was without any basis in fact, and, presumably, the action would never have been filed, or would have been withdrawn.

Any reasoned review of the Advisory Committee Note which explains the 1983 amendments to Rule 11 will also establish that the proper standard of evaluating the conduct of a signer of a document is an objective one, not a subjective one.

"The new language stresses the need for some pre-filing inquiry into both the facts and the law to satisfy the affirmative duty imposed by the Rule. The standard is one of reasonableness under the circumstances."

Amended Rule 11 continues to apply to anyone who signs a pleading, motion, or other paper. Although the standard is the same for unrepresented parties, who are obligated themselves to sign the pleadings, the court has sufficient discretion to take account of the special circumstances that often arise in *pro se* situations."

The reference in the former text to willfulness as a prerequisite to disciplinary action has been deleted. However, in considering the nature and severity of the sanctions to be imposed, the court should take account of the state of the attorneys or parties actual or presumed knowledge when the pleading or other paper was signed. Thus, for example, when a party is not represented by counsel, the absence of legal advice is an appropriate factor to be considered."

It is hard to argue against the notion that use of such words as "reasonableness under the circumstances," statements that "the standard is the same for unrepresented parties" or the statement that "willfulness as a prerequisite to disciplinary action has been deleted" evidence a clear intention to evaluate the conduct of any purported violator of the rule, whether counsel, represented party, or unrepresented party, by the same objective standard, adjusted only to reflect the knowledge, training, or role of the alleged violator. Simply stated, *anyone* who signs a paper in clear violation of Rule 11, judged objectively, should be subjected to sanctions.

The Ninth Circuit, in the instant case, reviewed its history of finding that attorney conduct should be evaluated on an objective basis.<sup>8</sup> In so doing, it noted that the great weight of authority nationwide, and the great

<sup>8</sup> See, e.g., cases cited in Footnote 3.

majority of commentators, were in agreement that a standard of objectivity was appropriate for counsel, and, apparently, for unrepresented parties acting as their own counsel. The Ninth Circuit was also swayed by the fact that the Fourth Circuit, in *Cleveland Demolition Co., Inc. v. Azcon Scrap Corp.*, 827 F.2d 984 (4th Cir. 1987) was in agreement. In that case, the Fourth Circuit made no differentiation whatsoever between counsel and his client in the application of an objective standard to determine the violation of, and to cause the imposition of sanctions under, Rule 11.

The Ninth Circuit, in its Opinion (reproduced in the appendix to the Petition) analyzed the very authority proffered herein by petitioner. In so doing it noted that the appellate authorities and the commentators were in complete agreement as to the proper standard to be applied in considering Rule 11 violations on the part of a party, with the sole exception of the Second Circuit in the *Calloway* case. Perhaps recognizing the unusual, perhaps unique, circumstances of the *Calloway* case, the Ninth Circuit rejected petitioner's arguments, and remained true to its own law, the law of other circuits, and the terms of and intention behind Rule 11. Petitioner has provided absolutely no significant justification for this Court to depart from that conclusion.

Both Rule 11 itself, and the Advisory Committee Note, make it abundantly clear that the Rule may be applied to parties who violate its terms, and that such parties may be sanctioned in any manner appropriate to their wrong. Similarly, the Advisory Committee Note makes it indisputably clear that a party representing himself who signs a document in his own behalf is likewise

subject to Rule 11, and his conduct is likewise reviewed on the basis of an objective standard. Petitioner here seeks to have this Court draw a sharp, but unwarranted, distinction between a party who signs his own Complaint, and a party who signs, for example, a declaration which forms the centerpiece of his claim. Such a distinction is without support, legal or logical, and should be rejected.

In opposing an objective standard for a represented party, although apparently acknowledging the propriety of such a standard for an attorney or for an unrepresented party, petitioner urges that "the Ninth Circuit test - which directs courts to apply the same standard of 'objective reasonableness' but, then, to analyze what is reasonable differently for counsel and parties - is not only hopelessly vague but will create myriad problems in application." (Pet., p.17) Such an asserted basis for the requested ruling ignores both the rule and its Advisory Committee Note, and the fact that the standard of objective reasonableness is used daily, in virtually every area of the law, without the Pandora's box of problems prophesied by petitioner.

Petitioner ignores that the Advisory Committee Note places the same burden on an attorney who signs a paper as on an unrepresented party who signs a paper, although it expressly notes that the fact of no legal training should be considered in determining the objective reasonableness of the unrepresented party's conduct. Furthermore, the concept of objective reasonableness in American jurisprudence is one of long-term acceptance, and widespread use. For example, claims of basic negligence are determined on the basis of whether or not the

defendant acted "reasonably" under the circumstances there present. It is a denial of reality to suggest that use of a test of "objective reasonableness" constitutes acceptance of a standard that is "hopelessly vague" and that "will create myriad problems in application" when in fact that very standard is applied in any number of ways, and in multiple legal disciplines, as one of the hallmarks of the American system of justice.

It is indeed ironic that in an effort to avoid accountability for spending nearly 100 hours preparing papers, rather than an hour or two accepting defendant's invitation to review his work papers so that he could demonstrate that no copying took place, and for failing to spend a few minutes out of the nearly 100 hours to determine the accuracy of the facts upon which this mammoth effort was based, petitioner urges that this Court should eschew the objective standard normally accepted, and replace it with a subjective one. Perhaps petitioner is of the view that because it lost, and miserably, when its conduct was judged objectively, it will do better under a subjective standard. As set forth above, however, petitioner fares no better under a subjective standard; no matter how favorably it tries to portray its conduct, the cold truth paints the effort as one of abject futility.

On page 3 of its Petition, petitioner urges that it "indisputably acted in good faith". It does not explain how the execution of a Declaration under penalty of perjury that says the signer knows certain facts of his own knowledge, when he clearly knows that he does not, and that says those facts are correct, when he has not taken so much as a few minutes to check them, can constitute subjective reasonableness any more than it can

constitute objective reasonableness. On page 4 petitioner acknowledges that "Certainly it is appropriate to sanction anyone who knowingly misuses the litigation process . . . ." The refusal to accept defendant's offer to review his work papers to clarify that there was no copying, coupled with a failure to check further facts when a huge red flag has been raised, all in an effort to rush to Court to prevent anticipated competition at an upcoming trade show, constitutes precisely such a misuse of the litigation process.

On page 17 of its Petition, Business Guides urges that "So long as such parties act in good faith, tell the whole truth and nothing but, they should be entitled to rely on the advice of counsel as to whether they need to verify certain facts for business records, or take other steps before filing suit." If in fact Business Guides, both generally and through Michael Lambe, had told "the whole truth and nothing but," no lawsuit would have been filed. The whole truth was that Michael Lambe swore falsely, and when questioned about details, removed those he found false but did not even check the others. He simply swore, again falsely, to their accuracy.

It must be remembered that the original Declaration signed under penalty of perjury stated the existence of ten seeds, and it was only because the District Court sought specificity as to those ten that anyone bothered to even check any of them. When that check of four revealed that they should not have been included, no check was made of the rest. It matters not a whit whether such conduct is viewed under an objective standard, or a subjective one; it is precisely the kind of conduct that Rule 11 prohibits.

Finally, petitioner acknowledges on page 17 of the Petition that "there is never justification for knowingly submitting false evidence." Petitioner did precisely that, but by the clever turn of a phrase pretends otherwise. Because petitioner wanted to squash a very small business competitor, however, Mr. Lambe apparently had no compunctions about signing the false declaration necessary to accomplish that end. Rule 11 does not permit such conduct, and both the District Court, and the Ninth Circuit, were perfectly right in doing what they did. This Court should not intervene.

Finally, petitioner urges that an objective standard creates the risk of "satellite proceedings" under Rule 11, and that somehow the application of a subjective standard would create more judicial efficiency by avoiding such satellite proceedings. Considered carefully, it becomes obvious that nothing could be further from the truth.

Petitioner, apparently, contemplates Rule 11 proceedings which require the Court to determine precisely what facts were given by the client to the attorney, so that it can evaluate the attorney by virtue of an objective standard, and the client by virtue of a subjective standard. Petitioner does not indicate, however, how such an inquiry could ever be conducted without invading the attorney/client privilege, or perhaps the work product privilege. Nor does petitioner explain how inquiries into an individual's subjective state of mind could possibly be less time-consuming, and more satisfactory in terms of defensible results, than weighing that same conduct by an objective standard. Petitioner supports its notions by pointing to a couple of areas of the law which turn on

subjective judgments. Petitioner ignores, however, the far greater number of legal disciplines in which conduct is judged and liability imposed, after objective analysis.

Petitioner similarly does not mention the obvious - that the application of an objective standard to counsel but a subjective standard to the client will automatically create an inevitable conflict of interest between the attorney and the client, whenever Rule 11 sanctions are considered.<sup>9</sup> There seems no useful reason for creating the complexity of proceedings, nor the substantial invasion of the attorney/client relationship, solely for the purpose of creating a separate rule of subjectivity for a represented (but not unrepresented) party.

---

<sup>9</sup> Indeed, a clear conflict of interest played a substantial role in the Court's determination in *Calloway*: "The issue here is not simply the plight of a pro se appellant with a viable claim of error who abandons his or her appeal. The Rule 11 proceeding concerning Calloway was thoroughly tainted by his attorneys' failure to withdraw from representation at the start of the proceeding in which they had an adverse financial interest. See generally Code of Professional Responsibility Canon 5, N.Y.Jud.Law Appendix (McKinney 1975). The result was financially disastrous to Calloway and, because Calloway was found to be fifty percent responsible for the conduct violating Rule 11, benefitted the attorneys. Because he was represented by attorneys with a clear conflict of interest, Calloway is not only likely to be unaware that he had a viable ground for appeal concerning his responsibility relative to that of LeFlore, but he may also believe that he is protected by LeFlore's appeal." *Calloway*, *supra* at 1475.

#### IV. CONCLUSION

For all of the foregoing reasons, the Petition for Writ of Certiorari should be denied. A United States Magistrate, a District Court Judge, and a unanimous panel of the United States Court of Appeals for the Ninth Circuit found without equivocation that the conduct of plaintiff in filing a baseless lawsuit, and in submitting a false declaration in support thereof, constituted two violations of Rule 11 on the part of the plaintiff. As a consequence, defendant was simply awarded his attorneys' fees and costs in defending against that meritless action. Rather than accept accountability for its gross violation of a specific Rule, as well as of the standards of practice, plaintiff appealed that modest sanction award to the Ninth Circuit. It made there virtually every argument it has made here, and found each rejected, and unanimously. Now it seeks review by this Court of that very same modest sanction award.

It is respectfully submitted that this Court should decline review of this matter for the reasons set forth above, including but not limited to the fact that the conduct of plaintiff was shameful, and sanctionable, under any possible standard of the application of Rule 11. Further proceedings in this matter will be of no benefit to the parties, or to our system of justice.

Dated: May 31, 1990.

Respectfully submitted,

NEIL L. SHAPIRO  
Counsel of Record  
PATRICIA A. PERKINS  
COOPER, WHITE & COOPER

*Attorneys for Respondents  
Chromatic Communications  
Enterprises, Inc. and Michael Shipp*

AUG 20 1990

JOSEPH F. SPANIOLO, JR.  
CLERK

(4)

No. 89-1500

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In The  
**Supreme Court of the United States**  
October Term, 1990

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BUSINESS GUIDES, INC.,

*Petitioner,*

vs.

CHROMATIC COMMUNICATIONS ENTERPRISES, INC.  
and MICHAEL SHIPP,

*Respondents.*

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On Writ Of Certiorari To The United States  
Court Of Appeals For The Ninth Circuit

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JOINT APPENDIX

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STEPHEN V. BOMSE\*  
STEPHEN N. GOLDBERG  
JOSHUA R. FLOUM

HELLER, EHRMAN, WHITE &  
McAULIFFE  
333 Bush Street  
San Francisco, CA 94104  
Telephone: (415) 772-6000  
*Attorneys for Petitioner*

NEIL SHAPIRO\*  
PATRICIA A. PERKINS  
COOPER, WHITE & COOPER  
101 California Street  
San Francisco, CA 94111  
Telephone: (415) 433-1900  
*Attorneys for Respondent*

\*Counsel of Record

---

Petition For Certiorari Filed March 21, 1990  
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80. Letter to Judge Conti from Neil Shapiro, dated July 12, 1988. Document filed July 18, 1988.

84. Court order re imposition of further sanctions, entered August 9, 1988. (Reprinted in the Appendix to the Petition for Writ of Certiorari at Pet. App. 27a).
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- 

JAMES, GACK & FREEMAN  
 3333 Mendocino Avenue  
 Santa Rosa, California 95406  
 (707) 528-7555

RICHARD W. FREEMAN, JR.

FINLEY, KUMBLE, WAGNER, HEINE,  
 UNDERBERG, MANLEY, MYERSON & CASEY  
 9100 Wilshire Boulevard  
 Beverly Hills, California 90212  
 (213) 550-6100

MICHAEL D. DEMPSEY  
 LISA B. MARGOLIS

UNITED STATES DISTRICT COURT  
 NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	86 CIV.
Plaintiff,	)	
	)	
v.	)	
	)	
CHROMATIC	)	
COMMUNICATIONS	)	
ENTERPRISES, INC., and	)	
MICHAEL SHIPP,	)	
Defendants.	)	

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PLAINTIFF'S MEMORANDUM OF LAW  
 IN SUPPORT OF ITS APPLICATION  
 FOR A TEMPORARY RESTRAINING  
 ORDER AND PRELIMINARY INJUNCTION

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JAMES, GACK & FREEMAN

3333 Mendocino Avenue  
Santa Rosa, California 95406  
(707) 528-7555

RICHARD W. FREEMAN, JR.

FINLEY, KUMBLE, WAGNER, HEINE,  
UNDERBERG, MANLEY, MYERSON & CASEY

9100 Wilshire Boulevard  
Beverly Hills, California 90212  
(213) 550-6100

MICHAEL D. DEMPSEY

LISA B. MARGOLIS

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	86 CIV.
Plaintiff,	)	
v.	)	PLAINTIFF'S
CHROMATIC	)	MEMORANDUM
COMMUNICATIONS	)	OF LAW IN SUPPORT
ENTERPRISES, INC., and	)	OF ITS APPLICATION
MICHAEL SHIPP,	)	FOR A TEMPORARY
Defendants.	)	RESTRAINING ORDER
	)	AND PRELIMINARY
	)	INJUNCTION.

Preliminary Statement

This case involves a directory of computer and software retailers. Defendants copied names and addresses and other information from Business Guides, Inc.'s ("Plaintiff") directory including "seeds" and altered business names and addresses that Plaintiff placed in the Directory with the express purpose of identifying potential unauthorized users of the Directory's listings. Defendants' copying of the seeds constitutes highly probative

evidence of piracy. By copying the Directory, defendants avoided the substantial expenditure of time and money that Plaintiff incurred in compiling the Directory and are thus able to offer the same product at a significantly reduced price.

Business Guides, Inc. ("Plaintiff") brings this action to enjoin Defendants preliminary and permanently from advertising, marketing, publishing and distributing their pirated versions of Plaintiff's copyrighted directory of computer and software retailers and thereby forestall the immediate and potentially fatal harm Plaintiff will suffer if Defendants' unlawful activities continue unabated.

Plaintiff expended fourteen months of talent and labor, at a cost of many tens of thousands of dollars, to canvass, research, compile, verify and publish its copyrighted directory. Defendants purchased Plaintiff's Directory and proceeded to merely replicate its contents in the production of substantially cheaper imitations in print and on a computer diskette without any original creative labor of their own, and with the apparent aim of appropriating Plaintiff's extensive marketing success.

Plaintiff's Directory was and is validly copyrighted under the protection of the United States Copyright Laws. It is indisputable that Defendants have infringed that copyright and seek to unfairly capitalize on their unlawful actions by advertising, marketing, and ultimately publishing and distributing to Plaintiff's customers their cheaper pirated diskette. Defendants' actions will, if unchecked, effectively destroy Plaintiff's ability to compete by rendering its Directory unmarketable. Injunctive relief is thus absolutely essential to avoid substantial

and irreparable harm to Plaintiff's business and to the integrity of Plaintiff's work product. Moreover, such injuries, when compared to the negligible harm to be incurred by Defendants by the issuance of injunctive relief where Plaintiff seeks to expedite these proceedings, clearly demonstrate that the balance of hardships involved tips decidedly in Plaintiff's favor.

#### Factual Statement\*

Plaintiff is engaged in the business of publishing and marketing books and other materials. Plaintiff has published among many other titles, a comprehensive compilation of computer hardware and software retail outlets entitled "Directory of Computer + Software Retailers" ("Directory"). The Directory is a distinctive product and contains far more comprehensive information than any of the other directories now on the market. This Directory has been published in print annually since 1983. Plaintiff undertook substantial effort and expense in the compilation of the Directory. Because the Directory has substantial research and completion costs, the printed version has been priced at \$350 for the 1983 edition and \$389 for the 1984 through 1986 editions. When Plaintiff first entered the market in 1983, its \$350 price was far lower than the prices charged by its competitors which ran from \$1,500 and up. In October 1985, Plaintiff began offering

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\*The signature pages on the affidavits supporting the factual statement are FAX copies. We are awaiting the delivery of the original documents from New York City and will file them with the court as soon as they arrive which we anticipate will be the day after these papers are filed.

the directory on a diskette to the general public. The diskette version is priced at \$1,125.

As a precaution against the pirating of its contents, "seeds", false businesses or business addresses and altered business names and addresses, were included among the thousands of listings contained within the Directory. Plaintiff has copyrighted the 1984 through 1986 editions of its Directory.

Since at least May 1984 Chromatic Communications Enterprises, Inc. ("Chromatic") has advertised and marketed "The Personal Computer - An Industry Source Book" to the public and to business purchasers of Plaintiff's Directory at a substantially lower price than the Directory. Following the publication of "The Personal Computer - An Industry Source Book," in approximately May 1985, Chromatic began to advertise and market another directory titled "The Directory of Microcomputer Retailers." Subsequently, in approximately March 1986 Chromatic began to advertise and market its directory on computer diskettes, entitled "MicroLeads", for a special introductory price of \$595, \$530 lower than the price of Plaintiff's diskettes.

In March, 1986, Plaintiff received Chromatic's advertising materials for its diskette. Plaintiff then attempted to purchase a copy of Chromatic's diskette, but did not receive the diskette until the end of August, 1986. In reviewing Chromatic's diskette, Plaintiff discovered that it contained "seeds" from the 1984 through 1986 editions of its directory. Likewise, in reviewing Chromatic's printed directories in October 1986, Plaintiff discovered that that directory also contained the same seeds as well

as a number of others. Since Chromatic had included altered names and addresses appearing in the Directory in its printed directories and on its diskette and printed directories at \$247.50 and a diskette at \$595 that Plaintiff knew would have to be sold for far higher prices if the extensive canvassing, research, verification, and compilation necessary to produce such directories and a diskette were actually accomplished, it became apparent that Defendants had infringed Plaintiff's copyright in the Directory by merely copying Plaintiff's listings.

In correspondence with counsel for Defendants prior to institution of this action, Plaintiff's counsel demanded that Defendants cease and desist from infringing Plaintiff's copyright in the Directory and destroy all infringing materials. Defendants refused to comply. Instead, defendants have stated that all they will do is produce the documents used to compile the material on their diskette and perform a line-by-line comparison of their diskette and Plaintiff's Directory. Defendants thus continue to advertise and market their identical, cheaper, and pirated printed and diskette directories. As a result, Plaintiff is threatened with a significant loss of customers, a loss of its credibility in the market place and, ultimately, the failure of its Directory and its diskette as competitive products. Despite this threat, Plaintiff has advised defendants that it is willing to continue to attempt to resolve this matter. However, it is imperative that defendants be prevented from advertising their printed and diskette directories at the Comdex trade show on November 9, 1986. That trade show is extremely important because it is

the largest trade show for the microcomputer marketplace and because it provides publishers such as Plaintiff with a captive audience. Allowing defendants to advertise at Comdex would result in further substantial and irreparable harm.

### ARGUMENT

#### PLAINTIFF IS ENTITLED TO A TEMPORARY RESTRAINING ORDER AND PRELIMINARY INJUNCTIVE RELIEF

The Ninth Circuit test for the granting of a preliminary injunction has been clearly established:

"One moving for a preliminary injunction assumes the burden of demonstrating *either* a combination of probable success and the possibility of irreparable injury *or* that serious questions are raised and the balance of hardship tips sharply in his favor."

*Wm. Inglis & Sons Baking v ITT Cont. Baking Co.*, 526 F.2d 86, 88 (9th Cir. 1975), quoting *Charlie's Girls, Inc. v. Revlon, Inc.*, 483 F.2d 953, 954 (2d Cir. 1973). As discussed below, Plaintiff has easily satisfied all prerequisites for the issuance of a temporary restraining order and a preliminary injunction.

#### A. Plaintiff Has Demonstrated A Likelihood of Success On The Merits Since It Possesses A Valid Copyright Which Was Infringed By Defendants.

A directory or compilation, such as Plaintiff's Directory has consistently been held to be an appropriate and proper subject for copyright protection. *Jewelers Circular Publ. Co. v. Keystone Publ. Co.*, 281 F. 83, 87-88 (2d Cir.

1922), *cert. den.*, 259 U.S. 581 (1922); *Leon v. Pacific T. and T. Co.*, 91 F.2d 484 (9th Cir., 1937); *Schroeder v. William Morrow and Company*, 566 F.2d 3 (7th Cir., 1977). *Schroeder*, which considered the predecessor of 17 U.S.C. § 103, found a gardening directory, closely analogous to the retailer directory at issue here, to be an appropriate subject for copyright protection. The *Schroeder* Court held that an original compilation of names is entitled to copyright protection even if the listings are in the public domain. *Schroeder* also held that while a copyright will not necessarily protect the names and addresses themselves, it will protect the product of the compiler's industry.

Plaintiff's Directory, then, is an appropriate subject for copyright protection because directories in general and moreover, directories produced by the methodology employed by this specific Plaintiff, have been held subject to such protection. *See, Chain Store Business Guide, Inc. v. Wexler*, 79 F. Supp. 726 (S.D.N.Y., 1948) where a directory produced by Plaintiff's predecessor company in precisely the same manner as Plaintiff's Directory in this action, was held to be copyrightable by the District Court for the Southern District of New York.

Plaintiff's Directory is also an appropriate subject for copyright protection because Plaintiff possesses certificates of copyright registration covering the 1984 through 1986 editions of the Directory and the information in them. As the Copyright Act provides in 17 U.S.C. § 410(c), a certificate of copyright registration:

" . . . shall constitute *prima facie* evidence of the validity of the copyright and of the facts stated in the certificate." (emphasis added)

*See, Kieselstein-Cord v. Accessories By Pearl Inc.*, 489 F.Supp. 732 (S.D.N.Y.) *rev'd on other grounds*, 632 F.2d 989 (2d Cir., 1980) and *Dollcraft Industries, Ltd. v. Well-Made Toy Mfg.*, 479 F.Supp. 1105 (E.D.N.Y., 1978) (in which cases New York Federal District Courts held certificates of copyright registration to constitute *prima facie* evidence of valid copyright under facts similar to the facts in the immediate case). Thus, under 17 U.S.C. § 410 (c) Plaintiff is presumed in law to possess a valid copyright over its Directory, and it is the burden of Defendants to prove the contrary. H.R. Rep. No. 1476, 94th Cong., 2d Sess. 157 (1976); *Transgo, Inc. v. Transmission Parts Corp.*, 768 F.2d 1001, 1019 (9th Cir. 1985), *cert. denied*, 106 S. Ct. 802 (1986); *Kieselstein-Cord, supra*, at 734. Moreover, in *Dow Jones v. Chicago Bd. of Trade*, 546 F.Supp. 113, 115 (S.D.N.Y., 1982), Copyright L. Rep (CCH) ¶ 25, 423, the District Court for the Southern District of New York recently found two independent theories upon which to justify copyright protection for a directory: 1) the expenditure of labor in compiling the information; and 2) the compiler's exercise of editorial selectivity and subjective judgment. Clearly, Plaintiff has demonstrated that it possesses a valid copyright in its Directory and in the organized information contained in it.

The affidavits submitted by Plaintiff set forth *prima facie* evidence that Defendants infringed Plaintiff's copyright by simply copying the compilation contained in Plaintiff's Directory. It is well established that the mere copying of a copyrighted directory of another constitutes infringement. *Schroeder v. William Morrow and Company, supra*; *Adventures in Good Eating Inc. v. Best Places to Eat*

*Inc.*, 131 F.2d 809 (7th Cir., 1942); *List Publishing Co. v. Keller*, 30 F. 772 (S.D.N.Y., 1887).

The fact that Plaintiff's "seeds" (the fictitious listings and the altered names and addresses in the Directory) are included in Defendants' diskette and printed directory presents what various courts have called "persuasive", "prima facie", and "highly probative" evidence of piracy. *Eisenman Chemical Co. V. N. Industries, Inc.*, 595 F.Supp. 141, 146 (D.Nev. 1984); *Reubin H. Donnelly Corp. v. Guide to Multinational Businesses Inc.*, 193 U.S.P.Q. 791 (N.D.Ill., 1976); *Southwest Bell Telephone Co. v. Nationwide Inc.*, 371 F.Supp. 900 (W.D.Ark., 1974); *Sub-Contractors Register v. McGovern's C. and B. Manual*, 69 F. Supp. 507 (S.D.N.Y., 1946); *American Travel and Hotel Directory v. Gehrig Publ. Co.*, 4 F.2d 415 (S.D.N.Y., 1925). Although defendants may have eliminated the false names and addresses through verification by telephone, their failure to correct the altered names and addresses constitutes highly probative evidence of piracy given the odds that the same errors would occur by chance.

Furthermore, Defendant's copying of the listings contained in Plaintiff's Directory does not constitute legal "fair use" because Defendants did not:

- a). conduct a prior, independent canvass; and
- b). verify any information derived from Plaintiff's Directory.

The conducting of a prior, independent canvass and the verification of derivative information are required under the "fair use" defense to copyright infringement. *WOPOW, Inc. v. MRLJ Enterprises*, 584 F.Supp. 132, 138 n.17 (D.C. Cir. 1984) *Central Telephone Co. v. Johnson Publ.*

*Co.*, 526 F.Supp. 838 (D.C.Col., 1981); *National Research Bureau Inc. v. Marvin H. Kucker, supra*; *Northwest Telephone System Inc. v. Local Publications Inc.*, 208 U.S.P.Q. 257 (D.C.Mont., 1979). In *Central Telephone Co.*, the Court held that a subsequent verification, without a prior, independent canvass, was insufficient to satisfy the twin requisites of the "fair use" defense and the Court found an infringement. Thus, even if Defendants may have called to verify the information, the fair use doctrine is still inapplicable because there was not even a remotely colorable prior, independent canvass.

That defendants took the pirated material from Plaintiff's printed material and market it not only in print but also on a computer diskette makes no difference. "If defendant's work adversely affects the value of any of the rights in the copyrighted work [in this case the right to market the directory on diskettes] the use is not fair." *Harper & Row Publishers v. Nation Enterprises*, 105 S. Ct. 2218, 2235 (1985); and see also *Encyclopedia Britannica Ed. Corp. v. Crooks*, 542 F.Supp. 1156, 1171 (W.D.N.Y. 1982). Moreover, Defendants' diskette competes directly with Plaintiff's diskette version of the directory.

In sum, there is a strong likelihood of success on Plaintiff's claim that it owns a valid copyright which was improperly infringed by defendants.

#### B. Plaintiff Has Demonstrated Irreparable Injury And The Balance of Hardships Tips Decidedly In Its Favor.

Copyright infringement divests the copyright holder of exclusive control over his unique intellectual property.

Accordingly, upon a showing of infringement, the general rule is that irreparable injury is presumed. *Apple Computer, Inc. v. Formula Intern, Inc.*, 725 F.2d 521, 525 (9th Cir. (1984); *Universal City Studios v. Film Ventures Intern*, 543 F.Supp. 1134, 1139 (C.D. CAL. 1982); *Stern Electronics Inc. v. Kaufman*, 523 F.Supp. 635 (E.D.N.Y., 1981), *aff'd*, 669 F.2d 852 (2d Cir., 1982); *Wainwright Sec. v. Wall Street Journal*, 558 F.2d 91 (2d Cir., 1977), *cert. denied*, 434 U.S. 1014 (1978); *Standard and Poor's Corp. v. Commodity Exchange*, 683 F.2d 704 (2d Cir., 1982); *National Lampoon Inc. v. American Broadcasting Co. Inc.*, 376 F.Supp. 733, 749-50 (S.D.N.Y. 1974), *aff'd*, 497 F.2d 1343 (2d Cir., 1974).

As the Second Circuit observed:

"A copyright holder in the ordinary case may be presumed to suffer irreparable harm when his right to the exclusive use of the copyrighted material is invaded" *Rice v. American Program Bureau*, 446 F.2d 685, 688 (2d Cir., 1971).

Similarly, the Third Circuit recently stated:

"[It is the] prevailing view that a showing of copyright infringement or reasonable likelihood of success on the merits raises a presumption of irreparable harm." *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1254 (3d Cir., 1983).

In any event, even if irreparable injury is not presumed, the record here amply demonstrates the likelihood of such harm to Plaintiff. Defendants are seeking to sell their pirated diskette version of Plaintiff's directory at a price substantially less than that of Plaintiff's diskette directory to a market identified and largely created by Plaintiff's labor and expense. The affidavits submitted by Plaintiff clearly demonstrate the extensive efforts

expended by Plaintiff in creating its directory. Defendants on the other hand, simply derived their imitation printed and diskette directories from the fruits of Plaintiff's labor and now, without any investment of the great time and expense required to produce the quality of work contained in Plaintiff's Directory, are attempting to "cash in" on Plaintiff's efforts by stealing its customers, while using Plaintiff's copyrighted work product as the bait. Unless enjoined, Defendants' pirated printed and diskette directories will render the original Directory and Plaintiff's diskette directory overpriced and unmarketable products. Accordingly, given the *prima facie* case of infringement stated above and the foregoing considerations, Plaintiff has demonstrated the threat of serious and possible fatal, irreparable injury from Defendants' conduct.

Finally, the balance of hardships clearly favors the granting of injunctive relief. If a temporary restraining order does not issue, Defendants will be able to continue to market and advertise their pirated printed and diskette directories at forthcoming trade shows, one of which is scheduled for November 9, 1986, in newsletters and through direct solicitation. This will substantially affect, in an irreparable fashion, Plaintiff's hard earned customer base. Additionally, if a temporary restraining order is not granted Plaintiff may lose its ability to successfully prosecute this action since the Defendants, aware that they may be subject to liability in this copyright action, will be able to take various counteractions to interfere with the preservation of internal documents and other important evidence.

On the other hand, the requested relief will merely restrain Defendants pending speedy determination of this action. It should be noted that there are no First Amendment considerations which might preclude the granting of the requested injunctive relief prior to the publication of Defendant's directory. *See generally, Nimmer on Copyright*, § 1.10 (1984); *McGraw Hill v. Worth Publ. Inc.*, 335 F. Supp. 415 (S.D.N.Y., 1971); *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562 (1977). The requested injunctive relief will not affect the remainder of Defendants' business and will therefore cause it little hardship. Moreover, "the potential losses to Defendant are easily calculable and can be secured against by a bond." *Nature's Bounty Inc. v. Super X Drugs Corp.*, 490 F.Supp. 50 (E.D.N.Y., 1980). Additionally, the facts in the immediate case are simple and straight forward. Plaintiff has sought expedited discovery in order to speedily resolve the merits of Plaintiff's infringement claim.

Since Plaintiff satisfies the necessary preconditions, Defendants should be restrained from infringing Plaintiff's copyrights *pendente lite*. The United States District Courts are expressly empowered to issue such relief to prevent copyright infringement. *See*, 17 U.S.C. § 502 (providing that the District Courts of the United States are expressly empowered under the Copyright Act to "grant temporary and final injunctions as [they] may deem reasonable to prevent or restrain infringement of a copyright"); *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 104 S.Ct. 776, 784 (1984); *American Code Co. v. Bensinger*, 282 F. 829 (2d Cir., 1922); *Inge v. Twentieth Century-Fox Film Corp.*, 143 F. Supp. 294 (S.D.N.Y., 1956). The *Inge* court stated, at 299:

"[I]n cases of infringement of copyright, an injunction has always been recognized as a proper remedy because of the inadequacy of the legal remedy; that the remedy exists both by statute and independently thereof." (citation omitted)

Accordingly, as the District Court for the Southern District of New York recognized in 1948 on substantially identical facts, Plaintiff is entitled to a temporary restraining order and a preliminary injunction. *Chain Store Business Guide, Inc. v. Wexler*, 79 F.Supp. 726 (S.D.N.Y. 1948).

#### CONCLUSION

For all the foregoing reasons, it is respectfully submitted that Plaintiff's applications for a temporary restraining order and a preliminary injunction, be in all respects granted, together with such other and further relief as this Court may deem just and proper.

Dated: October 29, 1986      Respectfully submitted,

FINLEY, KUMBLE, WAGNER, HEINE,  
UNDERBERG, MANLEY, MYERSON  
& CASEY

MICHAEL D. DEMPSEY  
LISA B. MARGOLIS

By: Michael D. Dempsey  
Michael D. Dempsey  
Attorneys for Plaintiff  
Business Guides, Inc.

(Certificate of Service Omitted in Printing)

JAMES, GACK & FREEMAN  
3333 Mendocino Avenue  
Santa Rosa, California 95406  
(707) 528-7555

RICHARD W. FREEMAN, JR.

FINLEY, KUMBLE, WAGNER, HEINE,  
UNDERBERG, MANLEY, MYERSON & CASEY  
9100 Wilshire Boulevard  
Beverly Hills, California 90212  
(213) 550-6100

MICHAEL D. DEMPSEY

LISA B. MARGOLIS

Attorneys for Plaintiff  
BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

C 86 6164 SC

BUSINESS GUIDES, INC.	)	86 CIV.
Plaintiff,	)	
-against-	)	PROPERTY
	)	RIGHTS
CHROMATIC	)	
COMMUNICATIONS	)	COMPLAINT
ENTERPRISES, INC., and	)	
MICHAEL SHIPP,	)	1. COPYRIGHT
	)	2. CONVERSION
Defendants.	)	3. UNFAIR
	)	COMPETITION

Plaintiff Business Guides, Inc. ("Plaintiff") for its complaint herein, alleges:

Jurisdiction and Venue

1. This is an action brought under the Copyright Laws of the United States (17 U.S.C. § 101, *et seq.*) and under the common law.

2. This Court had jurisdiction of this action under 28 U.S.C. §§ 1331, 1332, and 1338 in that it arises under the laws of the United States pursuant to which there is exclusive jurisdiction in this Court, the matter in controversy exceeds the sum of Ten Thousand Dollars (\$10,000), exclusive of interest and costs, and there is diversity of citizenship.

3. Venue lies in the Northern District of California pursuant to 28 U.S.C. § 1391(b) as the Claim arises in said judicial district, and pursuant to 28 U.S.C. § 1391(c) as defendant Chromatic Communications Enterprises, Inc. ("Chromatic") is doing business in said judicial district and defendant Michael Shipp ("Shipp") resides in said judicial district.

Parties

4. Plaintiff is a corporation organized under the laws of the State of New York and doing business in the State of New York. Its principal place of business is located at 425 Park Avenue, New York, New York 10022. Plaintiff is engaged, *inter alia*, in the business of publishing and marketing books, business guides and directories, and other such materials.

5. Upon information and belief, at all relevant times herein, defendant Chromatic was and is a corporation organized under the laws of the State of California, has done and is doing business in the City of Walnut Creek, County of Contra Costa, State of California, and is engaged in the business of publishing and marketing books and other such materials, including technical and specialty reference books and materials.

6. Upon information and belief, at all times herein relevant, defendant Michael Shipp ("Shipp") was and is domiciled in and a citizen of the Northern District of the State of California and is the President of Chromatic.

#### Background of Infringements

7. Since 1983, Plaintiff has published and marketed annually a directory of computer hardware and software outlets, titled "Director of Computer + Software Retailers" (the "Directory"), as well as updates to those editions and chain computer stores. In October 1985, Plaintiff began to offer the Directory on diskette to the general public.

8. In connection with the publication and marketing of the Directory, Plaintiff expended substantial time and expense in the conception and creation of the Directory, and the original compilation, and periodic updating, of the extensive information contained in the Directory.

9. At all relevant times, Plaintiff has owned the exclusive copyrights of all editions of the Directory including the 1983 through 1986 editions of the "Directory," has owned the exclusive copyright to the compilation of information contained within each edition of the Directory, has obtained from the Copyright Office registration and certification of the Directory copyright for each year, and has affixed appropriate notices to each Directory printed. Copies of Plaintiff's copyright registration certificates for the 1983 through 1986 editions of the Directory are annexed hereto as Exhibits "A" through "D," respectively.

10. Upon information and belief, between 1984 and 1986, Chromatic undertook by various unlawful means to simply copy and otherwise utilize the compilation of information contained within the Directory to produce similar, competing, substantially lower-priced printed directories entitled "The Personal Computer - An Industry Source Book," "The Directory of Microcomputer Retailers" and a diskette directory entitled "MicroLeads" infringing upon Plaintiff's copyrights in the Directory (hereinafter collectively referred to as the "Pirated Directories").

11. Upon information and belief, Shipp is the publisher of "MicroLeads," "The Personal Computer - An Industry Source Book," and "The Directory of Microcomputer Retailers."

12. Since at least May 1984, Chromatic has undertaken to advertise and has advertised and marketed "The Personal Computer - An Industry Source Book" to the public and to business purchasers of Plaintiff's Directory in particular, at a substantially lower price than the Directory.

13. Since at least March, 1986, Chromatic has undertaken to advertise and market and has advertised and marketed "MicroLeads" to the public and to business purchasers of Plaintiff's Directory in particular, at a substantially lower price than Plaintiff's diskette version of the Directory.

14. Upon information and belief, Chromatic intends to market its Pirated Directories at trade shows which will be attended by a substantial number of past and prospective buyers of Plaintiff's Directory.

15. Chromatic has neither paid Plaintiff for the compilation of information contained within the Directory nor received authorization to copy or otherwise utilize the information contained in Plaintiff's Directory to produce its Pirated Directory.

16. Upon information and belief, the aforementioned actions of Chromatic alleged in paragraphs 10 through 15 were personally participated in by Shipp. Upon information and belief, said defendant supervised such activity.

First Claim for Relief  
(Copyright Infringement)

17. Plaintiff repeats and realleges each and every allegation contained in paragraphs 1 through 16 as though fully set forth herein.

18. The Directory contains material in form wholly originated by Plaintiff and is a matter subject to copyright protection under the laws of the United States.

19. The Directory is a literary work pursuant to and as defined by, 17 U.S.C. § 101. At all relevant times, copyright protection subsists in the Directory pursuant to the provisions of 17 U.S.C. § 102, and the Directory is subject to copyright protection pursuant to the provisions of 17 U.S.C. § 104.

20. At all relevant times, Plaintiff has been and still is the sole proprietor and holder of all right, title, and interest in and to the copyrights of the Directory and information contained therein with exclusive rights

thereto, pursuant to the provisions of 17 U.S.C. § 101, *et seq.*

21. By reason of their conduct as hereinbefore alleged, defendants have violated and intend to continue to violate the copyright laws of the United States (17 U.S.C. § 101 *et seq.*).

22. As a result of defendants' infringement of its copyrights, Plaintiff has already been damaged in amount to be proved at trial but not less than Seven Hundred and Fifty Thousand (\$750,000) Dollars, and is threatened with immediate and substantial irreparable harm.

Second Claim for Relief  
(Conversion)

23. Plaintiff repeats and realleges each of the allegations contained in paragraphs 1 through 16 and 18 through 22 of the complaint as though fully set forth herein.

24. The conduct of defendants hereinbefore alleged constitutes an intentional misappropriation and conversion of the property of Plaintiff for the benefit and profit of defendants.

25. By reason of their misappropriation and conversion of the property of Plaintiff, defendants have committed a tortious act and Plaintiff has suffered substantial damages, and is threatened with imminent and substantial irreparable harm.

### Third Claim for Relief

26. Plaintiff repeats and realleges each of the allegations contained in paragraphs 1 through 16, 18 through 22 and 24 through 25 of the complaint as though fully set forth herein.

27. The conduct of defendants as hereinbefore alleged constitutes a bad faith, unfair and unjustifiable attempt to profit from Plaintiff's expenditure of time, labor, and talent in creating the Directory and is a form of commercial immorality constituting unfair competition.

[28.] By reason of defendants' unfair competition, Plaintiff has suffered substantial damages and is threatened with imminent and substantial irreparable harm.

WHEREFORE, Plaintiff prays for judgment as follows:

1. That defendants, their respective officers, agents, servants, employees and distributors, sales force and attorneys or any affiliates, subsidiaries or parent companies, and all those persons in active concert or participation with them be preliminarily and thereafter permanently enjoined and restrained from:

a. publishing, distributing, selling or otherwise using the Directory or information contained therein;

b. publishing, advertising, marketing, distributing, selling or otherwise using the Pirated Directories, "The Directory of Microcomputer Dealers," "Micro-Leads" and "The Personal Computer - an Industry Source Book," under those names or any other name; and

c. otherwise infringing upon Plaintiff's copyright in the Directory.

2. That defendants be required to deliver for impoundment during the pendency of this action, and to deliver for destruction any and all copies of the Pirated Directories and any and all documents and materials utilized for making same, or in connection therewith, or which were to comprise same.

3. That defendants be required to account for all gains, profits and advantages derived by them through their respective infringements of Plaintiff's copyrights.

4. Against defendants and in favor of Plaintiff on each claim, for damages in an amount which cannot presently be determined, but in an amount not less than Seven Hundred Fifty Thousand Dollars (\$750,000).

5. Against defendants and in favor of Plaintiff, for damages in the amount of One Million Five Hundred Thousand Dollars (\$1,500,000) as exemplary and punitive damages for their willful and deliberate infringement of Plaintiff's copyrights in the Directory.

6. Granting Plaintiff the costs and disbursements of maintaining this action, including reasonable attorneys' fees.

7. Granting Plaintiff such other and further relief as this Court may deem just and proper.

DATED: October 30, 1986

JAMES, GACK & FREEMAN  
 RICHARD W. FREEMAN, JR.  
 FINLEY, KUMBLE, WAGNER,  
 HEINE,  
 UNDERBERG, MANLEY,  
 MYERSON & CASEY  
 MICHAEL D. DEMPSEY  
 LISA B. MARGOLIS

By /s/ Michael D. Dempsey BM  
Michael D. Dempsey  
 Attorney for Plaintiff  
 BUSINESS GUIDES, INC.

# VERIFICATION

State of New York )  
 ) ss:  
 County of New York )

I, J. Roger Friedman, President of Business Guides, Inc., Plaintiff, in the above-entered action, being first duly sworn, say that the foregoing complaint is true and correct.

BUSINESS GUIDES, INC.

By: /s/ J. Roger Friedman  
 President

Subscribed and sworn to before me on Oct. 30, 1986.

/s/ Rhona Plunka

(Notary Seal)

(Certificates of Copyright Registration (Exhibits)  
 and Certificate of Service Omitted in Printing)

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JAMES, GACK & FREEMAN  
3333 Mendocino Avenue  
Santa Rosa, California 95406  
(707) 528-7555  
RICHARD W. FREEMAN, JR.

FINLEY, KUMBLE, WAGNER,  
HEINE,  
UNDERBERG, MANLEY, MYERSON  
& CASEY  
9100 Wilshire Boulevard  
Beverly Hills, California 90212  
(213) 550-6100  
MICHAEL D. DEMPSEY  
LISA B. MARGOLIS

Attorneys for Plaintiff  
BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.	)	86 CIV.
	)	SEALED
Plaintiff,	)	AFFIDAVIT
-against-	)	OF VICTORIA
CHROMATIC	)	M. K. BURDICK
COMMUNICATIONS	)	IN SUPPORT
ENTERPRISES, INC., and	)	OF PLAINTIFF'S
MICHAEL SHIPP	)	APPLICATION
	)	FOR A
Defendants.	)	TEMPORARY
	)	RESTRAINING
	)	ORDER AND
	)	FOR
	)	PRELIMINARY
	)	INJUNCTION

STATE OF NEW YORK )  
COUNTY OF NEW YORK ) : ss.:

VICTORIA M. K. BURDICK, being duly sworn,  
deposes and says:

1. I am a Sales Representative at Mail Marketing Resources, which is a Division of Business Guides, Inc. ("Plaintiff"), and submit this affidavit in support of Plaintiff's application for a temporary restraining order and preliminary injunction. The purpose of this affidavit is to discuss indisputable proof of defendants' infringement of Plaintiff's copyright and to fully detail Plaintiff's exhaustive efforts to canvass and compile the information contained in the 1983 through 1986 copyrighted editions of Plaintiff's "Directory of Computer + Software Retailers" (the "Directory").

2. I have held my current position since January 1986. From July, 1984 through December, 1985 I was employed by Plaintiff as the Editor of New Property Development, and from January 1985 through December 1985 as Senior Editor, New Property Development. From July, 1983 through June, 1984 I was employed by Plaintiff as an Associate Research Editor. From September, 1982 through June, 1983 I was a research assistant with Plaintiff.

3. I became aware of Chromatic Communications Enterprises, Inc.'s ("Chromatic") publication and sale of its competing diskette directory when I received an advertisement for the diskette in April, 1986.

4. I became suspicious that Chromatic copied its listings from Plaintiff's Directory because a previous

Chromatic Directory contained a false business "seeded" in Plaintiff's Directory precisely for the purpose of identifying efforts to pirate the listings contained in the Directory. Plaintiff then attempted to purchase Chromatic's diskette but did not receive it until the end of August, 1986. Upon examining the Chromatic diskette, it was obvious that Chromatic copied its listings from Plaintiff's Directory because the entries included other altered names of businesses or business addresses, "seeded" in the 1984 through 1986 editions of the "Directory of Computer + Software Retailers." Although Chromatic had eliminated the false businesses that Plaintiff had seeded in the "Directory of Computer + Software Retailers," it failed to correct five altered business names and addresses. That Chromatic had listed these altered business names and addresses convinced me that Chromatic had copied the Directory's copyrighted information, and was utilizing the fruits of Plaintiff's extensive labors to produce its own version of Plaintiff's copyrighted work. Copies of Chromatic's entries of the "seeds" are annexed as Exhibit "A." Realizing that Chromatic had copied the Directory in preparing its diskette directory, I thought it advisable to review Chromatic's printed directories to see whether they contained the same "seeds." My review showed that they contained the same "seeds" as Chromatic's diskette version as well as some additional "seeds" from the Directory. Copies of those "seeded" entries are attached hereto as Exhibit "B."

5. From September 1982 until December 1985 I was involved in the production of the Directory under the

direct supervision of Mr. Michael Lambe and the publisher. My primary responsibilities in this regard were threefold:

- a) Identification and retrieval of prospective sources for names of computer retailers;
- b) Preparation and organization of a card index of prospective computer retailers; and
- c) Supervision of telephone interviewing and editing of telephone interview responses.

These assignment, as detailed below, resulted in the list of names and other information to be included in the Directory.

#### Identification and Retrieval of Prospective Sources

6. I obtained prospective listings for the Directory from the following sources:

- (a) I telephoned manufacturers of personal computers such as Apple and Commodore. These companies agreed to send Plaintiff a listing of their dealers.
- (b) Plaintiff also subscribes to trade publications such as "Computer Dealer", "Computer Merchandising", and "Computer Reseller News", among others, which contain weekly or monthly reports of computer industry events, including store openings, changes of addresses, changes of names and other pertinent information.
- (c) Manufacturer cooperative ads, advertisements by a computer manufacture which contain the names and addresses of retail stores where the manufacturer's products may be purchased, were obtained from a clipping service

named "Ad R Holt" and used as a source for prospective listings in the Directory.

(d) Another source used was the subscription list to Plaintiff's own publication, "Computer + Software News."

(e) Plaintiff also purchased a list of members from the National Office Machine Dealers Association, which provided the names and addresses of many possible listings.

(f) Similarly, a membership list from the Association of Better Computer Dealers was also obtained.

(g) A bulk subscription list from "Personal Computing" magazine was also used to identify prospective listings.

(h) Other directories published by Chain Store Guide, Inc., Plaintiff's parent, provided the names of stores, although not exclusively computer stores, which sold computers on a retail basis.

(i) Finally, I canvassed the Yellow Pages of the nation's largest 150 standard metropolitan statistical areas (SMSA's) for computer retailers.

In total, over 7,350 names and addresses of prospective listings were compiled from these sources. This process required a majority of my time during the months of November and December of 1982 and January and February of 1983. Assisting me on this assignment were two other employees.

### Preparation and Organization of Prospect File

7. After having compiled all of the sources of prospective computer retailers, I spent March of 1983 preparing and organizing a "prospect file." This assignment was solely my responsibility.

8. Such prospective listing's names and address were placed on index cards. These cards were then copied for cross-referencing. I created two card files for three of the four categories in the Directory. The fourth category was "mass merchandisers and specialty retailers" which required no card file because its information was drawn from other files in our possession. One file arranged all listings in alphabetical order by company name; the other file arranged the listings in alphabetical order by store location (state and city). Thus, geographical and alphabetical listings were produced for each Directory category for use in further canvassing efforts.

### Telephone Interviewing and Editing

9. After I culled the prospective listings and organized them into a "prospect file," the months of April, May, June and July of 1983 were spent interviewing by telephone the approximately 7,350 prospects. This was accomplished by a staff which averaged eight employees under my supervision.

10. Each interviewer asked the prospective listing a series of questions from a questionnaire prepared by Michael Lambe. Annexed hereto as Exhibit "C" is a true copy of the questionnaire used by the telephone interviewers.

11. Upon the completion of the telephone interviewing process, Mr. Lambe and I reviewed all of the responses of the prospects to determine which of the listings fit within Plaintiff's criteria for each of the four categories of the Directory. The four categories of the Directory are: 1) Computer Stores; 2) Mass Merchandisers and Specialty Retailers; 3) Office Equipment and Supply Dealers; and 4) Computer and Software Distributors. For a prospective listing to be included in the Directory, its responses to the telephone interviewer must meet the criteria for one of the four categories as set forth below:

a) Computer Stores - criteria:

1. The prospective listing must have a storefront;
2. It must primarily carry personal computers and not mini-computers; and
3. 70% of its computer sales must be made at the retail level.

b) Mass Merchandisers & Specialty Retailers - criteria:

1. Retail storefront; and
2. The store must have a "serious involvement" in selling personal computers rather than a slight involvement.

c) Office Equipment & Supply Dealers - criteria:

1. The dealer must sell personal computers although this need not be its primary source of revenue; and
2. The dealer must sell other office equipment and supplies.

d) Computer & Software Distributors - criteria:

1. The distributor must distribute both personal computers and personal computer products, including software.
2. No more than 30% of its annual sales must be made at the retail level; and
3. It may not be a manufacturer of personal computers.

12. The editing process ultimately resulted in approximately 3,200 listings. This compilation, the result of many months of diligent canvassing and careful screening, represented the final list of computer retailers to be published in the 1983 copyrighted edition of the Directory.

The 1984 through 1986 Editions

13. The production of the 1984 copyrighted edition of the Directory involved procedurally similar canvassing efforts as the previous edition. The first four months of 1984 were devoted to updating the Directory with new listings, confirming the continued validity of the 1983 listings and adding new information for all of the listings.

14. To obtain new listings substantially the same sources which were used in the production of the 1983 edition were once again canvassed. This process took over two months and resulted in 1,500 new prospective listings.

15. Each of the new prospects was mailed a questionnaire. Annexed hereto as Exhibit "D" is a copy of the questionnaire sent to the new prospective listings. This

step was a change from the 1983 procedure by which all prospects were contacted by telephone.

16. If a new prospective listing did not respond to the questionnaire they were contacted and interviewed by telephone. This interview would seek to obtain the same information sought in the mailed questionnaire. The telephone interviewing process spanned the months of February, March and April of 1984.

17. A different mailing to companies listed in the 1983 edition was also made. This mailing sought to verify that the information contained in the 1983 edition was still accurate and to obtain any changes in that information. In addition, new information was also sought to further detail the Directory's listings. Annexed hereto as Exhibit "E" is a copy of the questionnaire sent to the companies listed in the 1983 edition.

18. Finally, those listed companies which did not respond to the mailing were telephoned. As in the case of new prospective listings, these interviews sought the same information sought in the mailing.

19. As the information was received, I would apply the same editing process detailed in paragraph 9, above. That is, I would determine whether the new prospect or previously listed company should be listed in the Directory and, if so, under what category.

20. This procedure resulted in an increase of approximately 600 new actual listings for the 1984 edition.

21. In preparing the 1985 and 1986 Directories, it was necessary to repeat all of the steps involved in preparing the 1984 Directory.

22. Because this affidavit sets forth in explicit step-by-step detail the specific methodology employed by Plaintiff in created its unique compilation comprising the Directory and in order to preserve the effective continued utility of plaintiff's "seeds", Plaintiff has requested that this affidavit and its Exhibits be filed herein under seal *in camera*.

/s/ Victoria M. K. Burdick  
Victoria M. K. Burdick

Sworn to before me this  
30th day of October, 1986

/s/ Rhona Plunka  
Notary Public

(Notary Seal)

(All Exhibits and Certificate of Service  
Omitted in Printing)

---

James, Gack & Freeman  
3333 Mendocino Avenue  
Santa Rosa, California 95406  
(707) 528-7555  
Richard W. Freeman, Jr.

FINLEY, KUMBLE, WAGNER, HEINE,  
UNDERBERG, MANLEY, MYERSON & CASEY  
9100 Wilshire Boulevard  
Beverly Hills, California 90212  
(213) 550-6100

Attorneys for Plaintiff

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	86 Civ.
	)	AFFIDAVIT OF
Plaintiff,	)	LISA B.
	)	MARGOLIS IN
-against-	)	SUPPORT OF
	)	PLAINTIFF'S
CHROMATIC	)	APPLICATION
COMMUNICATIONS	)	FOR A
ENTERPRISES MICHAEL SHIPP,	)	TEMPORARY
	)	RESTRAINING
Defendants	)	ORDER AND
	)	PRELIMINARY
	)	INJUNCTION
_____		)
STATE OF CALIFORNIA	)	
	)	
COUNTY OF LOS ANGELES	)	

LISA B. MARGOLIS, being duly sworn, deposes and says that:

1. I am an attorney associated with the firm of Finley, Kumble, Wagner, Heine Underberg, Manley,

Myerson & Casey, attorneys for Plaintiff Business Guides, Inc. ("Plaintiff") in the above action. I submit this affidavit in support of Plaintiff's application for a temporary restraining order and preliminary injunction enjoining Defendants' continued infringement of Plaintiff's registered copyright in the "Director of Computer & Software Retailers" (the "Directory").

2. Upon Plaintiff's advice that Defendants were engaged in conduct violative of Plaintiff's copyright in the Directory, I transmitted to Defendant, Chromatic Communications Enterprises, Inc. ("Chromatic"), on or about October 16, 1986, a letter requesting that Defendants cease and desist infringement of Plaintiff's copyright in the Directory, and destroy all materials in their possession derived from Plaintiff's copyrighted Directory. Plaintiff demanded that Defendants respond by October 22, 1986. (A copy of the October 16, 1986 letter is annexed as Exhibit "A").

3. On October 20, 1986, I received a telephone message from John Cornelius, Defendants' attorney. Although I attempted to call Mr. Cornelius on October 21, 1986, I was unable to reach him until October 22, 1986. At that time he advised me that he had not had the time to prepare a written response to my letter but that his client had used only independent sources in preparing his directory and that the[y] had documentation to prove that in the form of telephone bills. On October 24, 1986, I telephone Mr. Cornelius to see if he was authorized to accept service of process on behalf of Chromatic. Mr. Cornelius said that he would have to check with his client. Later that day, he called me and advised me that he was authorized to accept service.

[4] On October 27, 1986 I received a letter from Mr. Cornelius dated October 24, 1986 which was accompanied by an undated letter from Michael Shipp. Michael Shipp's letter stated that Chromatic would continue to publish its directory and that all that he was willing to do was: (1) show plaintiff the documents that he used to compile its directory; and (2) perform a line-by-line comparison of the two directories.

[5] Because I was unable to reach Mr. Cornelius by telephone, I sent a telegram to him on October 30, 1986 to advise him of the filing of this action and the presentment of the various applications herein submitted to the Court. (A copy of Plaintiff's Complaint is annexed as Exhibit "B"). I also advised Mr. Cornelius that although Plaintiff desired to try to resolve the matter without resorting to this Court, it was necessary to file the papers in order to prevent the irreparable injury that would be caused if the matter is not resolved before the Comdex trade show scheduled for November 9, 1986. (A copy of the telegram is annexed as Exhibit "C").

[6] No prior application for the relief requested herein by Plaintiff has been made to this or any other Court.

[7] Plaintiff moves by Order to show Cause because Plaintiff claims imminent danger of irreparable harm and has sought temporary and preliminary injunctive relief.

/s/ Lisa B. Margolis  
LISA B. MARGOLIS

Sworn to before me this 30th  
day of October, 1986.

/s/ Alison L. Dunn  
Notary Public

(Notary Seal)

## EXHIBIT A

FINLEY, KUMBLE, WAGNER, HEINE,  
 UNDERBERG, MANLEY, MYERSON & CASEY  
 A Partnership Including Professional Corporations  
 9400 WILSHIRE BOULEVARD  
 BEVERLY HILLS, CALIFORNIA, 90212

[Additional Letterhead Omitted In Printing]

October 16, 1986

Michael Shipp, President  
 Chromatic Communications, Inc.  
 P. O. Box 3249  
 Walnut Creek, California 94598

Re: *Microleads*

Dear Mr. Shipp:

We represent Business Guides, Inc., which is the publisher of the 1984 through 1986 volumes of the "Directory of Computer & Software Retailers." It has come to their attention that you have published and are promoting and selling the above-referenced directory on diskettes listing the various retail outlets and distributors involved in the sale of computers, software and related products, and that you used our client's directory and the data contained therein in preparing your directory in any manner that violates the copyright laws and constitutes unfair competition. It has also come to their attention that you are misrepresenting the source of your directory information in your promotional materials.

We demand that you acknowledge to us that you will immediately cease and desist marketing the above-referenced directory and destroy all existing diskettes of the directory; that you will immediately cease and desist

promoting the above-referenced directory and destroy all existing promotional materials; that all information received by you as a result of the unlawful use of our client's directory will be destroyed, whether in the form of notes, or otherwise; and that all other papers prepared using information contained in or obtained as a result of our client's directory will be destroyed. We doubt whether, in light of the unlawful use of our client's directory, you can publish any similar directory which is not tainted by these unlawful acts.

FINLEY, KUMBLE, WAGNER, HEINE,  
 UNDERBERG, MANLEY, MYERSON & CASEY

Michael Shipp, President  
 October 16, 1986  
 Page 2

We request a satisfactory answer from you by October 22, 1986, failing which, we have been instructed to take such action as may be required to protect our client's rights.

Very truly yours,

/s/ Lisa B. Margolis  
 Lisa B. Margolis for  
 Finley, Kumble, Wagner,  
 Heine,  
 Underberg, Manley, Myerson  
 & Casey

LBM:jmr  
 cc: Michael A. Bamberger  
 Victoria White

(Exhibits B and C, Certificate of Service Omitted in Printing)

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JAMES, GACK & FREEMAN  
3333 MENDOCINO AVENUE  
SANTA ROSA, CALIFORNIA 95406  
(707) 528-7555  
RICHARD W. FREEMAN, JR.

FINLEY, KUMBLE, WAGNER, HEINE,  
UNDERBERG, MANLEY, MYERSON & CASEY  
9100 Wilshire Boulevard  
Beverly Hills, California 90212  
(213) 550-6100  
MICHAEL D. DEMPSEY  
LISA B. MARGOLIS

Attorneys for Plaintiff  
BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	86 CIV.
Plaintiff,	)	AFFIDAVIT OF
	)	ANDREW
	)	DESARLE
v.	)	IN SUPPORT OF
CHROMATIC	)	PLAINTIFF'S
COMMUNICATIONS	)	APPLICATION
ENTERPRISES, INC., and	)	FOR A
MICHAEL SHIPP,	)	TEMPORARY
Defendants.	)	RESTRAINING
	)	ORDER AND
	)	PRELIMINARY
	)	INJUNCTION

STATE OF NEW YORK )  
COUNTY OF NEW YORK ) ss:

ANDREW DESARLE, being duly sworn, deposes and  
says:

1. I am the current publisher of Plaintiff Business Guide, Inc.'s ("Plaintiff") "Directory of Computer + Software Retailers" (the "Directory") and have been publisher since January 1986. I have been employed by Plaintiff since 1978. Prior to January 1986 I was employed as Group Director. I submit this affidavit in support of Plaintiff's application for a temporary restraining order and preliminary injunction which, in essence, will prevent Defendants from unlawfully advertising and marketing two similar printed directories and a diskette product pirated from Plaintiff's work and infringing upon Plaintiff's registered copyright in the Directory. I have personal knowledge of the facts set forth herein.

2. Chromatic Communications Enterprises, Inc. ("Chromatic") offers its infringing directory in print and on computer diskettes and advertises its infringing printed directories and its diskette directory at prices substantially lower than the price at which Plaintiff sells its printed and diskette versions of the directory. Pirating permits Chromatic to sell its directory for less. Announcement to Plaintiff's customers that the same compilation is available at such a low price is likely to cause profound irreparable harm to Plaintiff's integrity, its market share and will result in the loss of the valued good will in the directory business built up by Plaintiff for over fifty years. A number of Plaintiff's customers have advised me that they have already purchased Chromatic's pirated Directory instead of Plaintiff's Directory. Chromatic's continued advertising and marketing of its unlawful imitations, and its soliciting of Plaintiff's customers, including its advertising of its directories at the Comdex trade show scheduled for November 9, 1986, will exacerbate

the irreparable harm already suffered by Plaintiff and cause continued irreparable injury to Plaintiff. The Comdex trade show is held semi-annually and is extremely important because it is the largest trade show that exists for the microcomputer marketplace and because it permits publishers such as Plaintiff to advertise its directory to a captive audience. Consequently, allowing Defendants to advertise their pirated diskette and printed directories at Comdex would cause substantial and irreparable harm to Plaintiff.

3. I have been associated with the Plaintiff since January 1986 and have complete supervisory responsibility over all aspects of the research, compilation, marketing and sales of the Directory.

4. The Directory is a listing of over 4,000 retailers and distributors of computer hardware and software in the United States. The Directory is the only "horizontal" compilation (i.e., inclusive of each of the major retailing categories - computer and software stores, mass merchandisers, office equipment and specialty dealers, and distributors) published, and thus represents a unique product in its market.

5. Plaintiff's printed Directory is priced at \$389.00 because it involves substantial initial and continuing research and production costs, including compilation and updating of the extensive information it contains. Plaintiff's diskette version of the Directory is priced at \$1,125.

6. Upon information and belief Chromatic utilized the compilation of information contained in the Directory to prepare its own virtually identical compilation of those same retailers and distributors contained in the Directory.

7. Chromatic has been advertising and selling its printed directories since at least May 1984 and its diskette directory since at least March, 1986 in direct competition with Plaintiff's Directory and its diskette version of the Directory. Chromatic sells its printed and diskette directories at a far lower price than Plaintiff's diskette and printed versions of the Directory (principally because Chromatic does not have to recover from its sales the expense of costs incurred by Plaintiff in the substantial research and preparation of Plaintiff's Directory).

8. Plaintiff's Directory has been appropriately copyrighted, and notice has been printed on all copies of the Directory. Copies of Plaintiff's Copyrights for the Directory for 1984 through 1986 are annexed hereto as Exhibit "A". A copy of the appropriate notice of copyright contained on page 11 of the Directory is annexed as Exhibit "B".

/s/ Andrew DeSarle  
Andrew DeSarle

Sworn to me this 30th day  
of October, 1986.

/s/ Rhona Plunka  
Notary Public

(Notary Seal)

(All Exhibits and Certificate of Service Omitted in Printing)

JAMES, GACK & FREEMAN  
3333 MENDOCINO AVENUE  
SANTA ROSA, CALIFORNIA 95406  
(707) 528-7555  
RICHARD W. FREEMAN, JR.

FINLEY, KUMBLE, WAGNER, HEINE,  
UNDERBERG, MANLEY, MYERSON & CASEY  
9100 Wilshire Boulevard  
Beverly Hills, California 90212  
(213) 550-6100  
MICHAEL D. DEMPSEY, ESQ.  
LISA B. MARGOLIS, ESQ.

Attorneys for Plaintiff  
BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	86 CIV.
	)	AFFIDAVIT OF
Plaintiff,	)	MICHAEL
	)	LAMBE
v.	)	IN SUPPORT OF
CHROMATIC	)	PLAINTIFF'S
COMMUNICATIONS	)	APPLICATION
ENTERPRISES, INC., and	)	FOR A
MICHAEL SHIPP,	)	TEMPORARY
	)	RESTRAINING
Defendants.	)	ORDER AND
	)	PRELIMINARY
	)	INJUNCTION

STATE OF NEW YORK )  
 ) ss:  
COUNTY OF NEW YORK )

MICHAEL LAMBE, being duly sworn, deposes and  
says:

1. I am the Director of Research at Business Guides, Inc. ("Plaintiff") and submit this affidavit in support of Plaintiff's application for a temporary restraining order and preliminary injunction. The purpose of this affidavit is to detail the extensive planning and costs associated with the production of the 1983 through 1986 copyrighted editions of Plaintiff's "Directory of Computer + Software Retailers" (the "Directory").

2. I have been employed by Plaintiff for 13 years. As the Director of Research, the Associate Director of Research and, prior to these positions, as Executive Editor, one of my responsibilities was to plan and supervise the production of the Directory. In this regard, Ms. Victoria M. K. Burdick reported to me and I, in turn, kept the publisher advised of the Director's progress.

3. When Plaintiff began publishing the Directory in 1983, all of the competitors priced their directories at \$1500 and up, which was far higher than the price of \$350 at which Plaintiff offered its 1983 edition. Plaintiff's Directory is a distinctive product. It offers far more information than any other existing directory for each entry including product lines, computer models, sales, markets served and number of sales persons.

4. The initial planning of the Directory began in June and July of 1982. During this period, I made a general survey of the personal computer industry. My intention was to discover whether a market existed for the sale of the proposed Directory. To this end, I spent many hours reading various trade publications in the computer industry, interviewing manufacturers who might be potential purchasers of the Directory, consulting

with the editor of Plaintiffs own publication "Computer + Software News," and interviewing major retailers and distributors to learn their opinions as to whether the proposed Directory was a useful and marketable publication.

5. I concluded that there was a definite demand for a directory which included all of the different types of retailers in the computer trade, and so informed Mr. Appel, who was then the publisher.

6. Mr. Appel and I then began to plan the production of the project. A budget was set to cover production costs. The information and various categories to be included in the Directory were determined. Questionnaires were prepared for the gathering of information. I consulted with out computer services supplier for the key-punching of the information. A printing company was also contacted. Finally, a publication schedule was prepared and a support staff was hired.

7. Ms. Burdick was assigned the responsibility of supervising the research staff for the identification and telephone interviewing of prospective listings.

8. By July of 1983, Ms. Burdick and her staff had completed questionnaires from over 7,000 prospective listings. Ms. Burdick and I then established certain criteria for each of the four categories to be included in the Directory and determined which of the prospective listings qualified for listing.

9. After the qualified listings were determined, I supervised the preparation of Data Input Forms - the typing of approximately 3,200 listings for keypunching,

the editing of these forms, and the keypunching of the data.

10. Ms. Burdick and I proofread the printouts of the data and I arranged for the printing of the listings. The introduction and cover were prepared and we proofread the galleys and proofs from the printer. Finally, by August 11, 1983, the Directory was published and ready for sale.

11. From the initial planning of the Directory to its ultimate publication date, the project took dozens of persons and 14 months to complete. Approximately \$92,000 was expended in producing the 1983 edition. Although Ms. Burdick supervised the production of the 1984 edition of the Directory, I was responsible for its budget. That edition and its November 1984 update cost approximately \$110,000 to produce

12. I was also responsible for the budget for the 1985 and 1986 editions of the Directory. The 1985 edition and its October and December 1985 update cost approximately \$159,000 to produce and the 1986 edition and its August 1986 update cost approximately \$126,000 to produce.

13. In October 1985, we also began offering the directory on diskette to the general public. The diskette cost \$3,000 to prepare.

/s/ Michael Lambe  
Michael Lambe

Sworn to me this 30th day  
of October, 1986.

/s/ Rhona Plunka  
Notary Public

(Notary Seal)

(Certificate of Service Omitted in Printing)

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JAMES, GACK & FREEMAN  
Richard Freeman, Jr.  
3333 Mendocino Avenue  
Santa Rosa, California 95406  
Tel: (707) 528-7555

FINLEY, KUMBLE, WAGNER, HEINE,  
UNDERBERG, MANLEY, MYERSON & CASEY  
9100 Wilshire Boulevard  
Beverly Hills, California 90212  
(213) 550-6100

Attorneys for Plaintiff  
BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	C 86 6164 SC
	)	
Plaintiff,	)	ORDER
	)	ALLOWING THE
vs.	)	SUBMISSION OF
	)	AFFIDAVIT
CHROMATIC	)	UNDER SEAL
COMMUNICATIONS	)	AND IN CAMERA
ENTERPRISES, INC. and	)	
MICHAEL SHIPP,	)	(Filed
	)	NOV 8 1986)
Defendants.	)	

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On Nov. 3, 1986, Plaintiff, Business Guides, Inc.'s Application for submission of Affidavit under seal and *in camera* came on for hearing.

GOOD CAUSE HAVING BEEN SHOWN THEREFORE, IT IS ORDERED, that plaintiff may submit the Affidavit of Victoria M. K. Burdick, under seal and *in camera* and that defendants may examine the affidavit but

they are ordered not to disclose the contents of the affidavit.

DATED: Nov. 3, 1986      /s/ Samuel Conti  
U. S. District Judge

---

JAMES, GACK &  
FREEMAN  
3333 Mendocino Avenue  
Santa Rosa, California 95406  
(707) 528-7555  
RICHARD FREEMAN, JR.

SUBMITTED UNDER SEAL  
PURSUANT TO ORDER  
OF COURT ON FILE  
HEREIN

FINLEY, KUMBLE, WAGNER,  
HEINE,  
UNDERBERG, MANLEY,  
MYERSON & CASEY  
9100 Wilshire Boulevard  
Beverly Hills, California 90212  
(213) 550-6100  
MICHAEL D. DEMPSEY  
LISA B. MARGOLIS

Attorneys for Plaintiff(s)  
BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	86 CIV. 6164 SC
Plaintiff,	)	
	)	SUPPLEMENT TO
v.	)	SEALED AFFIDAVIT OF
	)	VICTORIA M. K. BUR-
CHROMATIC	)	DICK IN SUPPORT OF
COMMUNICATIONS	)	PLAINTIFF'S APPLICA-
ENTERPRISES, INC.	)	TION FOR A TEMPOR-
and MICHAEL SHIPP,	)	ARY RESTRAINING
Defendants.	)	ORDER AND PRELIMI-
	)	NARY INJUNCTION

STATE OF NEW YORK      )  
   ) ss:  
COUNTY OF NEW YORK    )

VICTORIA M. K. BURDICK, being duly sworn,  
deposes and says:

1. I am a sales representative at Mail Marketing Resources, which is a division of Business Guides, Inc. ("Plaintiff"), and submit this affidavit in support of Plaintiff's application for a temporary restraining order and preliminary injunction. The purpose of this affidavit is to supply copies of "seeds" as they appear in Plaintiff's "Directory of Computer & Software Retailers" (the "Directory") pursuant to the request of Robert Funsten.

2. Attached hereto as Exhibit "A" are copies of "seeds" from Plaintiff's 1984 edition of the Directory. As shown in my affidavit of October 10, 1986 defendant Chromatic Communications Enterprises, Inc. ("Chromatics") copied this version of the Directory including the "seeds". Attached to that prior affidavit are copies of the same "seeds" as they appear in Chromatic's directories and its diskette.

3. Attached hereto as Exhibit "B" are copies of "seeds" from the 1986 edition of the Directory. As shown in the October 10, 1986 affidavit, Chromatic copied that Directory as well as the "seeds". Attached to the October 10, 1986 affidavit are copies of the "seeds" as they appear in Chromatic's directories and its diskette.

4. In order to preserve the effective continued utility of Plaintiff's "seeds", Plaintiff has requested that this affidavit and its Exhibits be filed herein under seal and *in camera*.

/s/ Victoria M. K. Burdick  
Victoria M. K. Burdick

Sworn to me this 5th day  
of November, 1986

/s/ Grace D'Antoni  
Notary Public

(Notary Seal)

## [Exhibit A]

1984 CHAIN STORE GUIDE® DIRECTORY  
ALABAMA (Cont'd)

		Stores
†	<b>BMTC Systems, Inc.</b> , 113 S. Main Street Telephone: 205 586-1000 Product Lines: Acc; Monitors; Printers; Software (Educational); Storage Devices; Supl; System Units Computer Models: Commodore 64 Number Of Stores: 1 Total Sq. Ft.: 700 Services: Lease Financing Number Of Salespersons: 2 Year Founded: 1982 SID MCDONALD - President, Buyer. DAVID JACOBS - Marketing Mgr.	Arab 1 35016

		1 Store
	<b>Eagle Micro Systems, Inc.</b> , 138 S. Gay St. Telephone: 205 826-3691 Product Lines: Acc; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; Supl; System Units Computer Models: Corona; KayPro 2, 4, 10 Sales: \$750,000 (1983 Estimated) % Sales: 60 (hardware), 40 (software) Number Of Stores: 1 Projected # Stores: 1 (1/85) Total Sq. Ft.: 3,500 Services: Repair/Educational/On-Site Training/Customized Software/Lease Financing Year Founded: 1981 BILL WOMELDORF - President, Buyer.	Auburn 63830

**Ac3 Computing Products Center**,  
2029 2nd Ave. N. Birmingham  
Telephone: 205 251-4330 35203

5

## 1984 CHAIN STORE GUIDE® DIRECTORY

**Product Lines:** Acc; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; Supl; System Units

**Computer Models:** Apple IIe, III, Lisa; Epson HX-20, QX-10; Hewlett-Packard HP-41, HP-75C, HP-85A, HP-86, HP-87

**Sales:** \$6,500,000 (1983 Estimated)

**% Sales:** 70 (hardware), 30 (software)

**Number Of Stores:** 5

**Services:** Repair/Educational/On-Site Training/Lease Financing

**Year Founded:** 1980

FRED NUNNELLEY - President.

ROBIN WHITEHEAD - GM.

BARRY ARMSTRONG - Buyer.

	<b>The Computer Shop</b> , 1000 Pike Rd. Birmingham	1
	Telephone: 205 781-0711	35218

**Product Lines:** Acc; Modems; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Storage Devices; System Units

**Computer Models:** Epson HX-20; IBM PC; Sanyo MBC 555

**Sales:** \$400,000 (1983 Estimated)

**Number Of Stores:** 1

**Projected # Stores:** 1 (1/85)

**Services:** On-Site Training/Customized Software/Lease Financing

**Year Founded:** 1979

DANNY BONMAN - President.

† Also Mail Order    ★ Franchise Group Headquarters  
‡ Software Only Store(s)

## 1984 CHAIN STORE GUIDE® DIRECTORY

† **Cost Plus Computer,**  
 244 Golden Crest Dr. Birmingham  
 Telephone: 205 879-5976 35209  
 MAILING ADDRESS: Box 6114  
 Birmingham AL 35209  
**Product Lines:** Acc; Modems; Monitors;  
 Printers; Software (Business); Software (Sys-  
 tems); Storage Devices; Supl; System Units

## CALIFORNIA (Cont'd)

**Waybern Corp. (Continued)**  
 JASON P. GARON - VP, Mktg.  
 MARY PHILLIPS - CFO.  
 RAYMOND CARR - Material Control Mgr.  
 JOAN GROESNER - GM.

**Advanced Technology,**  
 3521 Investment Blvd. Hayward  
 Telephone: 415 785-8346 94545  
**Product Lines:** Modems; Printers  
**Number of Salespersons:** 8  
**Year Founded:** 1972  
 WALTER THOMAS - President, Buyer.

**Basic Systems, Inc.,**  
 230 W. Florence Ave. Inglewood  
 Telephone: 213 673-4300 90501  
**Product Lines:** Acc; Monitors; Printers;  
 Storage Devices; Supl; System Units  
**Sales:** \$6,000,000 (1983 Estimated)  
**% Sales:** 20 (software), 80 (peripherals)  
**Number Of Stores:** 1  
**Trading Area:** US  
**Number Of Salespersons:** 8  
**Year Founded:** 1980  
 ROBERT MORRIS - President, Buyer.  
 ERNIE MERINO - VP.  
 DAVE ELLIS - Sales Mgr, American Interna-  
 tional Distributors.

## 1984 CHAIN STORE GUIDE® DIRECTORY

MICHAEL GEORGOFF - Buyer, American  
 International Distributors.

**Softsel, 546 N. Oak St. Inglewood**  
 Telephone: 213 412-1700 90302  
**Product Lines:** Monitors; Software (Busi-  
 ness); Software (Educational); Software  
 (Entertainment); Software (Game); Software  
 (Personal); Software (Systems)  
**Sales:** \$87,000,000 (1983 Estimated)  
**Trading Area:** US  
**Distribution Center(s):** Atlanta, GA; Chi-  
 cago, IL; Fairfield, NV; Dallas, TX  
**Year Founded:** 1980  
 DAVID WAGMAN - Chairman.  
 BOB LEFF - President, Buyer.  
 DAVID BLUMSTEIN - ExVP, Marketing &  
 Sales.  
 SCOTT HILLMAN - VP, Product Services.  
 JOHN THOMPSON - National Operations  
 Mgr.  
 SPENCER LAYTON - Dir, Product Acquisi-  
 tion.  
 BRUCE CUMMINGS - Dir, Mktg.

**P & O Leasing Inc., 2 Flemming Irvine**  
 Telephone: 714 581-0333 92714  
**Product Lines:** Acc; Printers; Software  
 (Business); Software (Educational); Software  
 (Entertainment); Software (Game); Software  
 (Personal); Software (Systems); Supl  
**Sales:** \$1,000,000 (1983 Estimated)  
**Leases Hardware:** Yes, 20%  
**Trading Area:** US  
**Number Of Salespersons:** 3  
**Year Founded:** 1973  
 D. STARK - President.

## 1984 CHAIN STORE GUIDE® DIRECTORY

**Premier Source Distributing,**

1882 McGaw Irvine 92714

Telephone: 714 261-2011

**Product Lines:** Acc; Modems; Monitors;  
Printers; Software (Business); System Units**% Retailer:** 30**Trading Area:** AZ, CA**Number Of Salespersons:** 11**Year Founded:** 1980

TOM DODGE - President.

VIRGINIA DODGE - VP.

MARVIN MCCURDY - VP, Sales.

DON COLEY - Treas, GM, Buyer.

DON BLEDSOE - Sales Mgr.

**M. P. Systems,** 23341 Del Lago Laguna Hills

Telephone: 714 770-6411 92653

**Product Lines:** Acc; Modems; Monitors;  
Printers; Software (Business); Software (Per-  
sonal); Storage Devices; Supl; System Units**Computer Models:** Columbia Data Products

MPC, VP, 1600 Series; Panasonic

**Sales:** \$3,500,000 (1983 Estimated)**% Sales:** 50 (hardware), 50 (software)**Trading Area:** AR, LA, NM, TX**Distribution Center(s):** Dallas, TX**Number Of Salespersons:** 11**Year Founded:** 1977

JEFF YASSAI - President, Buyer.

CAMRAN MALEK - GM.

LAWRENCE WHITAKER - Sales Mgr.

**Starsoft Corp.,**

4984 El Camino Real # 125 Los Altos

Telephone: 415 965-8000 94022

**Product Lines:** Software (Business)**% Sales:** 100 (software)**Trading Area:** US**Number Of Salespersons:** 6

## COMPUTER + SOFTWARE DISTRIBUTORS™

**Year Founded:** 1982

ELIZABETH SHIRLEY - President, Buyer.

JON RANSOHOFF - VP of Marketing.

**American Computers & Engineers, Inc.,**

2001 S. Barrington, Suite 204 Los Angeles

Telephone: 213 477-6751 90025

**Product Lines:** Acc; Modems; Monitors;  
Printers; Software (Business); Storage  
Devices; Supl; System Units**Computer Models:** Apple IIe, III, Lisa, Mac-  
intosh; CompuPro System 816; Cromemco  
C-10, CS-2, CS-3, System 1; DEC PRO 350,  
Rainbow 100, Rainbow 100+; NEC APC**Sales:** \$4,500,000 (1983 Estimated)**Projected # Stores:** 4 (1/85)**Trading Area:** CA, WA**Number Of Salespersons:** 8**Year Founded:** 1978

GEORGE SAN DIB - President, Buyer.

AZIZ AL-KHAL - VP.

RAMUNE AMBROZADIS - General Mktg.

CAROLE DIB - GM.

CURT ESSEX - Technical Mgr.

JOHN KLAREN - Customer Support.

ABOUD ASSAF - Credit Mgr.

**Kierulff Electronics,**

2585 Commerce Way Los Angeles

Telephone: 213 725-0325 90040

**Product Lines:** Acc; Modems; Printers; Soft-  
ware (Business); Software (Game); Software  
(Personal); Software (Systems); -Storage  
Devices; Supl; System Units**Computer Models:** Cromemco C-10, CS-0,  
CS-2, CS-3, System 1; TeleVideo TS-802,  
TS-802H, TS-803, TS-806, TS-806H, TS-816,  
1600, 1603, 1605; Texas Instruments Porta-  
ble, Professional

**COMPUTER + SOFTWARE DISTRIBUTORS™**

**Sales:** \$200,000,000 (1983 Estimated - Total Company)  
**Trading Area:** US

**ILLINOIS (Cont'd)****Micro Warehouse, Inc. (Continued)**

**KENT LIPSHULTZ** - VP, Mktg & Technical Support.  
**GINGER MILLS** - Purchasing Agent.

<b>Price Electronics Corp.,</b>	1 Store
204 Carpenter	Wheeling 60090
Telephone: 312 998-6400	
<b>Product Lines:</b> Acc; Modems; Monitors; Printers; Storage Devices; Supl; System Units	
<b>Computer Models:</b> Panasonic	
<b>Sales:</b> \$14,000,000 (1983 Estimated)	
<b>Number Of Stores:</b> 1	
<b>Trading Area:</b> US	
<b>Year Founded:</b> 1975	
<b>MANNY I. PRICE</b> - President, Buyer.	
<b>SARA LEE PRICE</b> - VP.	
<b>STEVE JUSTMAN</b> - Sales Mgr.	

**Sterotronic Industries Inc.,**  
 Wadsworth Rd. & North Ave. Zion  
 Telephone: 312 746-1600 60099  
**Product Lines:** Acc; Modems; Monitors; Printers; Software (Business); Software (Educational); Storage Devices; Supl; System Units  
**Computer Models:** Commodore B Series, CBM-8032, 64; Eagle PC, II, III, IV, 1600 Series  
**Sales:** \$1,300,000 (1983 Estimated)  
**% Sales:** 60 (hardware), 40 (software)

**COMPUTER + SOFTWARE DISTRIBUTORS™**

**Number Of Salespersons:** 6 (4 In-House; 2 Field)

**Year Founded:** 1940

**PAUL G. PETERS** - President.

**BEVERLY PETERS** - VP, Treas.

**FORREST PETERS** - GM, Buyer.

**1984 CHAIN STORE GUIDE® DIRECTORY****MICHIGAN (Cont'd)****Inacomp Computer Center,**

251 N. Telegraph

Pontiac  
 48053

Telephone 313 681-1611

**Product Lines:** Acc; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; Supl; System Units

**Computer Models:** Apple IIe, Macintosh; DEC; IBM PC, PC-XT, PC jr

**% Sales:** 75 (hardware), 25 (software)

**Leases Hardware:** Yes

**Number Of Stores:** 1 (1/85)

**Total Sq. Ft.:** 2,567

**Franchise Group Hdqs:** Inacomp Computer, Troy, MI

**Services:** Repair/Educational/On-Site Training/Customized Software/Lease Financing

**Year Founded:** 1983

**HARRIET MACDOWELL** - President.

**EDWARD MACDOWELL** - VP, GM, Buyer.

**ROBERT MACDOWELL** - Technical Mgr.

## 1984 CHAIN STORE GUIDE® DIRECTORY

**Computerland,** 1 Store  
3545 Bay Rd. Saginaw 48603  
Telephone: 517 790-0511  
**Product Lines:** Acc; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; Supl; System Units  
**Computer Models:** Compaq; DEC Rainbow 100, Rainbow 100+; Epson HX-20; IBM PC, PC-XT; Texas Instruments Professional  
**Sales:** \$750,000 (1983 Estimated)  
**Number Of Stores:** 1  
**Total Sq. Ft.:** 3,000  
**Franchise Group Hdqs:** Computerland, Hayward, CA  
**Private Label:** Software, Supplies, Accessories  
**Services:** Repair/Educational/On-Site Training/Customized Software/Lease Financing  
**Year Founded:** 1983  
CLARICE O. TOSHACH - President, Buyer.  
DANIEL TOSHACH - VP.

**Inacomp Computer Center,** 2  
3580 Bay Rd. Saginaw 48603  
Telephone: 517 790-1360  
**Product Lines:** Acc; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; Supl; System Units  
**Computer Models:** Apple IIe, III, Lisa, Mac-Intosh; Compaq Plus, Portable; DEC Rainbow 100; IBM PC, PC-XT; North Star Advantage, Horizon

## 1984 CHAIN STORE GUIDE® DIRECTORY

**Sales:** \$1,300,000 (1983 Estimated)  
**% Sales:** 70 (hardware), 30 (software)  
**Leases Hardware:** Yes, 10%  
**Number Of Stores:** 2  
**Projected # Stores:** 2 (1/85)  
**Franchise Group Hdqs:** Inacomp Computer, Troy, MI  
**Services:** Repair/Educational/On-Site Training/Lease Financing  
**Year Founded:** 1977  
MICHAEL PREMO - President, GM.  
RICHARD PREMO - Marketing Mgr.  
WILLIAM M. SCHULTZ - Sales Mgr, Buyer.  
DAN MEEKER - Technical Mgr.

†‡ **The Listening Post and Book Store,** 1  
3097 Bay Plaza Saginaw 48604  
Telephone: 517 790-0140  
**Product Lines:** Acc; Books; Modems; Software (Business); Software (Educational); Software (Entertainment); Software (Personal)  
**% Sales:** 65 (hardware), 35 (software)  
**Number Of Stores:** 1

## COMPUTER STORES™

## NEW JERSEY (Cont'd)

**Scarborough Video (Continued)**  
**Computer Models:** Atari 400, 800, 1200  
**Number Of Stores:** 2  
**Services:** Educational/On-Site Training  
**Year Founded:** 1976  
ROBERT MARINO - President, Buyer  
R. YOUNG - VP.

† Also Mail Order    ★ Franchise Group Headquarters  
‡ Software Only Store(s)

## COMPUTER STORES™

**Video Fun, 1601 Rte. 22** Watchung 1  
 Telephone: 201 757-7988 07060  
**Product Lines:** Acc; Game Hardware; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Systems); Storage Devices; System Units  
**Computer Models:** Atari 600XL, 800XL; Commodore VIC-20, 64  
**Sales:** \$350,000 (1983 Estimated)  
**Number Of Stores:** 1  
**Total Sq. Ft.:** 256  
**Year Founded:** 1982  
 ROBERTA REIS - Owner, Buyer.  
 BETH REIS - Mgr.

**Computer Pros, West Belt Mall** Wayne 1  
 Telephone: 201 256-7070 07470  
**Product Lines:** Acc; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Personal); Storage Devices; Supl; System Units  
**Computer Models:** Apple II, ILe, III, Lisa, Mac-Intosh; Epson HX-20, QX-10; North Star Advantage, Horizon  
**% Sales:** 65 (hardware), 30 (software)  
**Leases Hardware:** Yes, 5%  
**Number Of Stores:** 1  
**Projected # Stores:** 3 (1/85)  
**Total Sq. Ft.:** 1,800  
**Private Label:** Software, Supplies  
**Services:** Repair/Educational/On-Site Training/Customized Software/Lease Financing  
**Year Founded:** 1982  
 JOSEPH G. GUIDER - President.  
 ALLAN J. BARR - Marketing Mgr, Sales Mgr.  
 S. K. CRIMINNIS - Buyer.

## COMPUTER STORES™

**SST Computer Center, 1581 Rte. 23** Wayne 2  
 Telephone: 201 575-2502 07470  
**Product Lines:** Acc; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Personal); Software (Systems); Storage Devices; Supl; System Units  
**Computer Models:** Eagle PC; Epson HX-20, QX-10; Hewlett-Packard HP-150; KayPro 2, 4, 10; Sanyo MBC-550, MBC 555  
**Sales:** \$300,000 (1983 Estimated)  
**% Sales:** 80 (hardware), 20 (software)  
**Number Of Stores:** 2  
**Projected # Stores:** 4 (1/85)  
**Total Sq. Ft.:** 500  
**Services:** Repair/Educational/On-Site Training/Customized Software  
**Year Founded:** 1977  
 ALVIN CHAI - President.  
 NORMAN ZACHER - Store Operations Mgr, Buyer.

## COMPUTER STORES™

† **Computer Discount of America,** 3 Stores  
 15 Marshal Hill Rd. West Milford 07480  
 Telephone: 201 728-8080  
**Product Lines:** Acc; Modems; Monitors;  
 Printers; Software (Business); Software  
 (Educational); Software (Entertainment);  
 Software (Game); Software (Personal); Stor-  
 age Devices; Supl; System Units  
**Computer Models:** Apple IIe, III, Macintosh;  
 Atari 400, 800, 800XL; Corona PC, PC-2;  
 Eagle II, III, IV; Epson HX-20, QX-10; Frank-  
 lin Ace 1000, Ace 1200; Radio Shack TRS-80  
 Model I, TRS-80 Model II, TRS-80 Model III  
**Sales:** \$5,000,000 (1982 Estimated)  
**% Sales:** 80 (hardware), 20 (software)  
**% Mail Order:** 25  
**Number Of Stores:** 3  
**Projected # Stores:** 6 (1/85)  
**Private Label:** Software, Supplies  
**Services:** Repair/Educational/On-Site  
 Training/Lease Financing  
**Year Founded:** 1979  
 JOSEPH RUSSO - President.  
 MIKE ANDRES - Store Operations Mgr,  
 Buyer.

## 1984 CHAIN STORE GUIDE® DIRECTORY

**Computer Dimensions,** 1  
 116 Elm Street Westfield  
 Telephone: 201 232-8300 07090  
**Product Lines:** Acc; Modems; Monitors;  
 Printers; Software (Business); Software (Educa-  
 tional); Software (Entertainment); Software  
 (Game); Software (Personal); Software (Sys-  
 tems); Storage Devices; Supl; System Units

† Also Mail Order ★ Franchise Group Headquarters  
 ‡ Software Only Store(s)

## 1984 CHAIN STORE GUIDE® DIRECTORY

**Computer Models:** Apple IIe; Atari 400, 800,  
 1200, Commodore VIC-20; 64; Timex Sin-  
 clair  
**Sales:** \$300,000 (1983 Estimated)  
**% Sales:** 70 (hardware), 30 (software)  
**Number Of Stores:** 1  
**Projected # Stores:** 1 (1/85)  
**Total Sq. Ft.:** 1,800  
**Private Label:** Software  
**Services:** Repair/Educational/On-Site  
 Training/Customized Software  
**Year Founded:** 1981  
 JOYCE LIPSON - President  
 STAN LIPSON - GM, Buyer.

**Entre Computer Center,** 1  
 520 South Ave. W Westfield  
 Telephone: 201 654-3110 07090  
**Product Lines:** Acc; Modems; Monitors;  
 Printers; Software (Business); Software  
 (Educational); Software (Entertainment);  
 Software (Personal); Software (Systems);  
 Storage Devices; Supl; System Units  
**Computer Models:** Compaq Plus, Portable;  
 DEC Rainbow 100, Rainbow 100+; Grid  
 Compass; TeleVideo TS-802, TS-802H,  
 TS-803, TS-806, TS-806H, TS-816, 1600, 1603,  
 1605  
**Sales:** \$2,500,000 (1983 Estimated)  
**% Sales:** 60 (hardware), 40 (software)  
**Leases Hardware:** Yes, 20%  
**Number Of Stores:** 1  
**Projected # Stores:** 1 (1/85)  
**Franchise Group Hdqs:** Entre Computer  
 Centers, Inc., Vienna, VA  
**Services:** Repair/Educational/On-Site  
 Training/Lease Financing  
**Year Founded:** 1983  
 JOHN HOWLETT - President, Buyer.  
 JOHN HADLEY - Sales Mgr.

## 1984 CHAIN STORE GUIDE® DIRECTORY

**Yudin's, Inc.**, 332 Greenwood Ave. Wyckoff 1  
 Telephone: 201 891-3111 07481  
**Product Lines:** Acc; Books; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Storage Devices; Supl; System Units  
**Computer Models:** Atari 800, 1200XL; Columbia Data Products 1600 Series; Commodore 64; Epson HX-20, QX-10; Franklin Ace 1000, Ace 1200  
**Sales:** \$1,000,000 (1983 Estimated)  
**Leases Hardware:** Yes, 2%  
**Number Of Stores:** 1

COMPUTER STORES™  
 NEW YORK (Cont'd)

**NFR Computer Room**, 3 Stores  
 87-32 253rd St. Bellerose 11426  
 Telephone: Unpublished  
**Product Lines:** Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; Supl; System Units  
**Computer Models:** Commodore VIC-20  
**Sales:** \$2,600,000 (1983 Estimated)  
**% Sales:** 75 (hardware), 25 (software)  
**Number Of Stores:** 3  
**Projected # Stores:** 3 (1/85)  
**Private Label:** Software, Supplies  
**Services:** Repair/Educational/Hot-Line/On-Site Training  
**Year Founded:** 1981  
**NICK ROSSINI** - President, Buyer.

† Also Mail Order ★ Franchise Group Headquarters  
 ‡ Software Only Store(s)

## COMPUTER STORES™

† **Bi-Tech Computer Stores**, 2  
 10 Carlough Road Bohemia  
 Telephone: 516 567-8155 11716  
**Product Lines:** Acc; Books; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; Supl; System Units  
**Computer Models:** Epson HX-20; Radio Shack TRS-80 Model 4; Sanyo MBC-550  
**% Mail Order:** 40  
**Number Of Stores:** 2  
**Projected # Stores:** 4 (1/85)  
**Total Sq. Ft.:** 800  
**Private Label:** Software  
**Services:** Repair/Lease Financing/Customized Software/Hot-Line/On-Site Training  
**Year Founded:** 1976  
**THOMAS VANDE-STOUWE** - Partner, President, Buyer.  
**AL ROSEN** - Partner.

† **Computer Wholesale**, P.O. Box 150 Brewerton 1  
 Telephone: 315 472-3055 13029  
**Product Lines:** Modems; Monitors; Software (Business); Software (Entertainment); Software (Personal); System Units  
**Computer Models:** Cromemco C-10, CS-2, CS-3, System 1; Morrow Decision, Micro-Decision, Micro-Decision MD2; Zenith Z89, Z90, Z100 Series  
**Sales:** \$2,000,000 (1983 Estimated)  
**% Sales:** 70 (hardware), 30 (software)  
**% Mail Order:** 65  
**Number Of Stores:** 1  
**Projected # Stores:** 1 (1/85)  
**Number Of Salespersons:** 4  
**Year Founded:** 1979  
**LARRY DANIELLO** - President.  
**CARLA MAURO** - Buyer.

## COMPUTER STORES™

**Computer Soft Center**, 92B Main St. Brewster 1  
 Telephone: 914 279-5001 10509  
**Product Lines:** Acc; Modems; Monitors;  
 Printers; Software (Business); Software  
 (Educational); Software (Entertainment);  
 Software (Personal); Software (Systems);  
 Storage Devices; Supl  
**Computer Models:** Commodore VIC-20, 64;  
 Franklin Ace 1000, Ace 1200  
**% Sales:** 40 (hardware), 60 (software)  
**Number Of Stores:** 1  
**Total Sq. Ft.:** 4,500  
**Services:** Repair/Educational/On-Site  
 Training/Customized Software  
**Year Founded:** 1982  
**MAT FERNANDOUS** - President, GM, Mar-  
 keting, Sales, Adv Mgr, Buyer.

[Exhibit B]

## 1986 CHAIN STORE GUIDE® DIRECTORY

## WASHINGTON (Cont'd)

- **Computerland**, 1808 136th Place N.E. 10  
 Suite 3 Bellevue  
 Telephone: 206 451-7700 98005  
**Product Lines:** Computer Acc; Computer  
 Supl; Modems; Monitors; Printers; Software  
 (Business); Software (Personal); Software  
 (Systems); Storage Devices; System Units  
**Computer Models:** Commodore Amiga;  
 Compaq Plus, Portable, 286 Series; Hewlett-  
 Packard; IBM PC, PC-AT; PC-XT, Portable  
**% Sales:** 60 (hardware), 20 (software), 20  
 (peripherals)  
**% Of Business:** 70% Walk-in; 30% Outside  
 Sales

† Also Mail Order ★ Franchise Group Headquarters  
 ‡ Software Only Store(s)

## 1986 CHAIN STORE GUIDE® DIRECTORY

**Markets Served:** Accounting-General  
**Number Of Stores:** 10  
**Total Sq. Ft.:** 52,000  
**Franchise Group Hdqs:** Computerland,  
 Hayward, CA  
**Private Label:** Software, Supplies  
**Services:** Repair/Educational/On-Site  
 Training/Customized Software/Hot-Line/  
 Lease Financing  
**Year Founded:** 1978  
**JACK HOOPER** - Chairman.  
**BRUCE LOFTEN** - Vice Chairman.  
**DENNIS OLIN** - Vice Chairman.  
**PHILLIP HOOPER** - President.  
**ELIZABETH JOHNSON** - General Buyer.

**Computers & Applications**, 1 Store  
 10623 NE 8th St. Bellevue 98004  
 Telephone: 206 451-8077  
**Product Lines:** Books; Computer Acc; Com-  
 puter Supl; Modems; Monitors; Printers;  
 Storage Devices; System Units  
**Computer Models:** Compaq Deskpro, Plus,  
 Portable, 286 Series; Epson QX-16; IBM PC,  
 PC-AT, PC-XT; KayPro 10; Olivetti M24;  
 Zenith Transportable, Z150  
**% Sales:** 60 (hardware), 10 (software), 30  
 (peripherals)  
**Number Of Stores:** 1  
**Total Sq. Ft.:** 2,500  
**Private Label:** Software, Supplies, Accesso-  
 ries, Peripherals  
**Services:** Repair/Educational/On-Site  
 Training/Customized Software/Lease  
 Financing  
**Year Founded:** 1982  
**TELUNG CHANG** - President, General Buyer.  
**DAVID CHOY** - Mgr, Retail Sales.  
**JOHN CLEVELAND** - Service Mgr.

## 1986 CHAIN STORE GUIDE® DIRECTORY

- **Computersource**, 14150 N.E. 20th St. Bellevue 1  
Telephone 206 643-7100 98007  
**Product Lines:** Books; Computer Acc; Computer Supl; Modems; Monitors; Printers; Software (Business); Software (Personal); Software (Systems); Storage Devices; System Units  
**Computer Models:** Hewlett-Packard HP-85, HP-85B, HP-86, HP-86B, HP-207, Portable, Portable Plus  
**Sales:** \$2,300,000 (1985 Estimated)  
**% Sales:** 65 (hardware), 15 (software), 20 (peripherals)  
**Number Of Stores:** 1  
**Projected # Stores:** 1 (3/87)  
**Total Sq. Ft.:** 5,000  
**Private Label:** Software  
**Services:** Customized Software/Hardware Enhancement/On-Site Training/Consulting/Educational  
**Year Founded:** 1983  
K. D. TWETON - President, General Buyer.  
JIM WEATHERBIE - VP.  
LEE TWETON - Mgr, Operations.  
GEORGE DART - Mgr, Sales.

## COMPUTER STORES™

## MICHIGAN (Cont'd)

- Inacomp Computer Center** (Continued)  
EDWARD MACDOWELL - VP, GM, Buyer  
All Lines.  
ROBERT MACDOWELL - Technical Mgr.  
DIANE KWIATOWSKI - Store Mgr.

† Also Mail Order    ★ Franchise Group Headquarters  
‡ Software Only Store(s)    ● VAR Activity

## COMPUTER STORES™

- Computerland**, 2 Stores  
3545 Bay Rd. Saginaw 48603  
Telephone: 517 790-0511  
**Product Lines:** Computer Acc; Computer Supl; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; System Units  
**Computer Models:** Apple IIC, IIE, Macintosh; AT&T PC, PC 6300, 7300; Compaq Deskpro, Plus, Portable, 286 Series; IBM PC, PC-AT, PC-XT, Portable  
**Sales:** \$2,500,000 (1985 Estimated)  
**% Sales:** 60 (hardware), 40 (software)  
**% Of Business:** 20% Walk-in, 80% Outside Sales  
**Number Of Stores:** 2  
**Total Sq. Ft.:** 3,000  
**Franchise Group Hdqs:** Computerland, Hayward, CA  
**Private Label:** Software, Supplies, Accessories  
**Services:** Repair/Educational/On-Site Training/Lease Financing  
**Number Of Salespersons:** 6 (3 In-House; 3 Field)  
**Year Founded:** 1983  
CLARICE O. TOSHACH - President, General Buyer.  
DANIEL TOSHACH - VP.

- **Inacomp Computer Center**, 5  
3580 Bay Rd. Saginaw  
Telephone: 517 790-1360 48603  
**Product Lines:** Computer Acc; Computer Supl; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; System Units

## COMPUTER STORES™

**Computer Models:** Apple IIC, IIE, Macintosh, Macintosh Plus; Compaq Deskpro, Plus, Portable, 286 Series; Franklin Ace 2000; Hewlett-Packard HP-85, HP-85B, HP-86, HP-86B, HP-207; IBM PC, PC-AT, PC-XT, Portable; Zenith PC-AT

**Sales:** \$9,000,000 (1985 Estimated)

**% Sales:** 60 (hardware), 25 (software), 15 (peripherals)

**% Of Business:** 70% Walk-in; 30% Outside Sales

**Markets Served:** Legal; Medical Practitioner

**Number Of Stores:** 5 (5 Franchised)

**Projected # Stores:** 5 (3/87)

**Total Sq. Ft.:** 16,000

**Franchise Group Hdqs:** Inacomp Computer, Troy, MI

**Services:** Repair/Educational/On-Site Training/Lease Financing/Consulting/Hardware Enhancement/Support

**Number Of Salespersons:** 20 (16 In-House; 4 Field)

**Year Founded:** 1978

**PHIL BRZEZINSKI** - CFO.

**MICHAEL PREMIO** - President.

**RICHARD PREMIO** - VP, Sales.

**GEORGE ATKINS** - VP, Satellites.

**WILLIAM M. SCHULTZ** - Mgr, Sales.

**DAN MEEKER** - Technical Mgr.

- **Computerland,**  
22000 Greater Mack Ave. St. Clair Shores  
Telephone: 313 772-6540 48080  
**Product Lines:** Books; Computer Acc; Computer Supl; Modems; Monitors; Printers;

† Also Mail Order ★ Franchise Group Headquarters  
‡ Software Only Store(s)

## COMPUTER STORES™

Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices

**Computer Models:** Apple IIC, IIE, Macintosh; Compaq Deskpro, Plus, Portable, 286 Series; IBM PC, PC-AT, PC-XT, Portable; Leading Edge; Panasonic

**Sales:** \$4,500,000 (1985 2)

**% Sales:** 60 (hardware), 10 (software), 30 (peripherals)

**Markets Served:** Legal

(Certificate of Service  
Omitted in Printing)

† Also Mail Order ★ Franchise Group Headquarters  
‡ Software Only Store(s)

JAMES, GACK & FREEMAN

Richard Freeman, Jr.

3333 Mendocino Avenue

Santa Rosa, California 95406

Tel: (707) 528-7555

FINLEY, KUMBLE, WAGNER, HEINE,

UNDERBERG, MANLEY, MYERSON & CASEY

9100 Wilshire Boulevard

Beverly Hills, California 90212

(213) 550-6100

Attorneys for Plaintiff

BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	C866164SC
	)	
Plaintiff,	)	ORDER
	)	ALLOWING THE
vs.	)	SUBMISSION OF
	)	DECLARATION
CHROMATIC	)	UNDER SEAL
COMMUNICATIONS	)	AND IN CAMERA
ENTERPRISES, INC. and	)	
MICHAEL SHIPP,	)	(Filed
	)	NOV 7 1986)
Defendants.	)	

On November 7, 1986, Plaintiff, Business Guides, Inc.'s Application for Submission of Declaration Under Seal and *In Camera* came on for hearing.

GOOD CAUSE HAVING BEEN SHOWN THEREFORE, IT IS ORDERED, that plaintiff may submit the Declaration of Michael Lambe, under seal and *in camera* and that defendants may examine the declaration but

they are ordered not to disclose the contents of the declaration.

DATED: November 7, 1986

/s/ Samuel Conti  
U. S. District Judge

JAMES, GACK & FREEMAN

3333 Mendocino Avenue  
Santa Rosa, California 95406  
(707) 528-7555

RICHARD W. FREEMAN, JR.

FINLEY, KUMBLF, WAGNER, HEINE,  
UNDERBERG, MANLEY, MYERSON & CASEY  
9100 Wilshire Boulevard  
Beverly Hills, California 90212  
(213) 550-6100

MICHAEL D. DEMPSEY  
LISA B. MARGOLIS

Attorneys for Plaintiff  
BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	Case No.
Plaintiff,	)	C866164SC
v.	)	DECLARATION OF
CHROMATIC	)	MICHAEL LAMBE IN
COMMUNICATIONS	)	SUPPORT OF PLAIN-
ENTERPRISES, INC. and	)	TIFFS' APPLICATION
MICHAEL SHIPP,	)	FOR A TEMPORARY
Defendants.	)	RESTRAINING ORDER
	)	AND FOR PRELIMI-
	)	NARY INJUNCTION
	)	(Filed
	)	NOV 7 1986)

I, Michael Lambe, declare as follows:

1. I am the Director of Research at Business Guides, Inc. ("Plaintiff") and submit this Declaration in Support of Plaintiff's Application for a Temporary

Restraining Order and Preliminary Injunction. The purpose of this Declaration is to explain how Plaintiff altered data to produce means of monitoring use of copyrighted information - i.e. "seeds." The "seeds" appear in Plaintiff's "Directory of Computer & Software Retailers" (the "Directory"). In the sealed Affidavit of Victoria M.K. Burdick and the supplement to that Affidavit which were previously submitted in this case, Ms. Burdick explained that Defendants had copied the directory including the "seeds". Attached to that Affidavit and the supplement were copies of the seeded entries as they appear in Defendants' directories and diskette, as well as copies of the seeded entries as they appear in the Directory. Below I will explain how Plaintiff altered the entries in order to detect infringements of its copyright.

2. One of the seeded entries that the Defendants copied from Plaintiff's Directory and which is contained in Defendants' diskette is for: Computers & Applications, telephone (206) 451-8077, 10623 N.E. 8th Street, Bellevue, Washington, Store Manager, David Choy. Plaintiff altered that entry by misspelling Mr. Choy's name. The correct spelling of Mr. Choy's name is not Choy, but Choi. This spelling alteration appears in both the 1986 edition of the Directory as well as Defendants' diskette.

3. Another seeded entry is for Computerland, telephone (517) 790-0511, 3545 Bay Road, Saginaw, Michigan, Store Manager, D. Hamel. The address of that entry has been altered. The correct address is not 3545 Bay Road, but 3845 Bay Road. This alteration appears in Defendants' diskette, and Defendants' 1985 edition of "The Directory of Microcomputer Retailers" as well as in the 1984 and 1986 editions of the Directory.

4. Another seeded entry is for Eagle Micro Systems, 138 S. Gray Street, Auburn, Alabama, 63830. The seeded entry appeared in the 1984 edition of the Directory. Plaintiff altered the zip code. The correct zip code is not 63830 but 36850. Defendants copied this seed in the 1985 edition of "The Directory of Microcomputer Retailers." Although they corrected the first two digits, they neglected to correct the fourth digit.

5. Another seeded entry is for Computer Discount of America, 31 Marshall Hill Road, West Milford, New Jersey, 07480. Plaintiff altered the name of the store in its Directory. The correct name is not Computer Disccont of America but Computer Discount of New Jersey. This altered name appears in the 1984 edition of the Directory and in Defendants' 1985 edition of "The Directory of Microcomputer Retailers".

6. Another altered entry is for Premier Source Distributing, Inc., 1882 McGaw Avenue, P.O. Box 16279, Irvine, California, 92714, Sales Manager, Donelly Bledsoe. Plaintiff altered the spelling of Mr. Bledsoe's name. The correct spelling is Blodsoe and not Bledsoe. This altered entry appears in the 1984 and 1986 editions of the Directory and in Defendants' 1985 edition of "The Personal Computer - An Industry Source Book".

7. Another altered entry is for Price Electronics Corp., 204 Carpenter, Wheeling, Illinois, 60090. Plaintiff altered the address. The correct address is 1813 Elmdale Avenue, Glenville, Illinois, 60025. This altered entry appears in the 1984 edition of the Directory and Defendants' 1985 edition of "The Personal Computer - An Industry Source Book."

8. Another seeded entry is for NFR Computer Room, 87-32 253rd Third Street, Bellrose, New York 11426. Plaintiff invented this false entry. The company does not exist at all. This false entry appears in Plaintiff's 1984 edition of the Directory and in Defendants' 1985 edition of "The Personal computer - An Industry Source Book."

9. In order to preserve the effective continued utility of Plaintiff's "seeds", Plaintiff requests that this Declaration be filed herein under seal and *in camera*.

10. I declare under penalty of perjury, under the laws of the United States and the laws of the states of California and New York, that the foregoing is true and correct.

DATED: November 7, 1986

/s/ Michael Lambe  
Michael Lambe

(Exhibits and Certificate of Service  
Omitted in Printing)

EPHRAIM MARGOLIN  
NICHOLAS C. ARGUIMBAU  
240 Stockton St., 3d Floor  
San Francisco, CA 94108  
Telephone: (415) 421-4347

Attorneys for Finley, Kumble, Wagner, Heine,  
Underberg, Manley, Myerson & Casey.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	) Case No.
Plaintiff,	) C 86-6164 SC
vs.	) DECLARATION
CHROMATIC	) OF MICHAEL D.
COMMUNICATIONS	) DEMPSEY
ENTERPRISES, INC. and	)
MICHAEL SHIPP,	)
Defendants.	)

DECLARATION OF MICHAEL D. DEMPSEY

I, MICHAEL D. DEMPSEY, declare:

1. My name is Michael D. Dempsey. Except as to the matters set forth herein on information and belief, I make this declaration of my own personal knowledge. Except as to the matters set forth herein on information and belief, if I was called upon to testify in open court concerning the matters set forth herein, I could do so of my own personal knowledge. As to the matters set forth

herein on information and belief, I am informed and believe that they are true.

2. I am an attorney admitted to practice law before the courts of the State of California, the United States District Courts for the Northern, Central and Southern Districts of California, the United States Court of Appeals, Ninth Circuit, and the United States Supreme Court. I also have been admitted pro hac vice before the United States District Courts for the District of Montana, the Southern District of New York and the Western District of Missouri.

3. I am a partner in the law firm of Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey, attorneys for plaintiff Business Guides, Inc. My business address is 9100 Wilshire Boulevard, Beverly Hills, California 90212, telephone number (213) 550-6100.

4. I make this declaration in connection with the order of the United States District Court that the Magistrate conduct an inquiry into the preparation of sealed declarations filed in the litigation known as *Business Guides, Inc. v. Chromatic Communications, Inc., et al.*, U. S. D. C. Case No. C-86-6164 SC (the "Lawsuit"). In the Lawsuit, Business Guides, Inc., seeks damages and injunctive relief because the defendants infringed plaintiff's copyright in a directory used in the micro-computer industry. At the time of filing the Lawsuit and at the time of preparation of the sealed declarations, the primary evidence of infringement was the appearance in the defendants' directory of seeded directory entries that had been copied from the plaintiff's copyrighted directory.

5. I believe that the lawsuit was based on reasonable inquiry and is well grounded in fact. The ability of our client, the plaintiff in the Lawsuit, to prevail in the Lawsuit and to prevail on the application for a temporary restraining order and preliminary injunction depended on the seeds. The evidence concerning the seeds to be considered in connection with the application for a temporary restraining order and a preliminary injunction had to be in declarations or affidavits filed by our client. For the reasons set forth in this declaration, I believe that our inquiry into the content of the sealed declarations was reasonable. Although I was not present during the November 7, 1986, hearing when the court stated that it believed that there were errors of fact in some of the sealed declarations, I have been told that the court believes that there are errors of fact. I also have been told that the court believes that at least two of the seeds described in the sealed declarations and that were set forth in the plaintiff's copyrighted work so that plaintiff could police potential infringement of its work, appear in the defendants' infringing work. My review of the sealed declarations indicates that at least one of the seeds that appears in the defendants' infringing work is a wholly fictitious company name invented by the plaintiff, including the home address of one of the plaintiff's employees as the purported address of the fictitious company. If the defendants did not copy this from the plaintiff's work, then where did they get it? Even if there are errors of fact in some of the sealed declarations, the defendant's use of this seed, alone, indicates copying.

6. There are two basic reasons why I believe that we conducted a reasonable inquiry into the Lawsuit and

the sealed declarations. The first is that it was reasonable to rely on our client, in view of my information concerning our client's experience and sophistication in protecting its directories against infringers and in successfully pursuing infringement litigation. The second is the appearance in the defendants' infringing work of the wholly fictitious seed invented by the plaintiff, plus items listed in the Bamberger declaration.

7. I am informed and believe that our client, both in its present business form and in its predecessor business form, has extensive experience over the last forty years in the use of seeds to protect its copyrighted directories. I also am informed and believe that the very seed list as issue in this litigation was used by our client in successfully proving that a Xerox Corporation subsidiary copied some or all of the same business guide of our client that is at issue in this litigation, and that as a result of our client's use of that seed list in its litigation against the Xerox Corporation subsidiary, our client was paid a substantial sum of money in damages, attorneys fees and costs. As set forth in more detail in this declaration, I believe that the inquiry concerning the seed list was reasonable, that the prior successful use of this same seed list in other litigation is an indication that the Lawsuit is well grounded in fact, and that what I understand to be the court's finding that at least two of the six seeds at issue were copied by the defendants from the plaintiff's protected directory also indicates that the Lawsuit is well grounded in fact.

8. I am informed that seeding is widely used by directory publishers to monitor the usage of their

copyrighted products. I am informed that there are two types of seeds:

a. *Seeded companies.* As I understand it, a seeded company is a totally fictitious listing, usually with the address of a private residence of an employee given as the purported address of the seeded company.

b. *Seeded Names and Addresses.* My understanding is that an otherwise accurate listing of an existing company can be seeded by the directory publisher by making a slight and hopefully inconsequential alteration in a name or address. For instance, the name Smith might be spelled by the directory publisher as Smyth.

9. Before October of 1986, I had done no work for our firm's client, Business Guides, Inc. On Friday, October 24, I received a telephone call from Lisa Margolis, another of the attorneys in our firm's Beverly Hills office. She told me that Michael Bamberger, a partner in our New York office, had asked our office to prepare, file and serve in the United States District Court for the Northern District of California a complaint by Business Guides, Inc. against Chromatic Communications, Inc., and others for infringement of our client's copyright in its directory.

10. Ms. Margolis told me that the complaint was to be based on the defendants' copying of our client's copyrighted computer industry directory. She told me that the infringement had just been discovered, that the defendants had not responded to a cease and desist letter, and that the infringement had to be enjoined before an important industry trade show, Comdex, started on Sunday, November 9. Ms. Margolis asked me whether I would

review the draft papers that she had prepared and participate in a telephone conference call with our client and with Mr. Bamberger. I agreed to do so.

11. I spoke to Ms. Margolis by telephone several times over the weekend of October 25, concerning her preliminary work in preparing the Lawsuit. On October 27, I reviewed the initial drafts of the papers prepared by Ms. Margolis. I learned that she had used as a model papers that has been prepared by another of our attorneys, Stuart K. Lesansky, for filing in the United States District Court for the Southern District of New York. Mr. Lesansky had worked in our New York office for several years and transferred to our Beverly Hills office in 1985. My review of the papers prepared by Mr. Lesansky for filing in the United States District Court For The Southern District of New York disclosed that they had been prepared on behalf of our client, Business Guides, Inc., against a subsidiary of Xerox Corporation. On October 27 or 28, I asked Mr. Lesansky what the result had been in the New York litigation. He told me that litigation was based on seeds inserted in one of our client's copyrighted directories being found in a directory published by a Xerox Corporation subsidiary, that because of the seeds the defendant in that litigation was forced to concede copying and infringement, and that in order to settle that litigation, the Xerox Corporation subsidiary paid Business Guides, Inc., a substantial sum in damages and attorneys fees, and agreed to stop publication of the allegedly infringing work. I later learned that our client's seeds that appeared in the infringing publication by the Xerox subsidiary came from the same seed list at issue in this litigation. When I read that seed list, I saw the seeded

entries appearing in the infringing publication of Chromatic Communications, Inc.

12. The draft papers I reviewed for submission in *Business Guides, Inc. vs. Chromatic Communications, Inc., et al.*, included a draft complaint, application for temporary restraining order, temporary restraining order, preliminary injunction and points and authorities. I told Ms. Margolis that my experience in matters of this type was that the chance of obtaining a temporary restraining and a preliminary injunction depended on the affidavits or declarations filed in support of the application. I told her that affidavits or declarations would have to be prepared for execution by one or more employees or officers of Business Guides, Inc., and that the declarations or affidavits would have to specifically set forth each and every item of proof that Business Guides, Inc., believed tended to establish that the defendants had copied the protected directory.

13. On October 27 Ms. Margolis and I had a telephone conversation with Mr. Bamberger and with our client. I told Mr. Bamberger and our client that the chance that Business Guides, Inc., would be awarded a temporary restraining order and a preliminary injunction depended on the affidavits or declarations filed in support of the application. During that telephone conversation, there was explained to me in some detail the mechanics of our client's preparation of a seed list. I was told that during the preparation of a given edition of the directory at issue, our client would prepare a set of seeded companies and a set of seeded names and addresses. The seeds would be inserted into the directory to be published. A separate list of the seeds would be

signed by those officers and employees of Business Guides, Inc., who had prepared the seed list. The signatures would be notarized and the signed, notarized seed list then put into the company safe. I was told by our client that this had been done in connection with the edition of the directory at issue, copyright 1984. I also was told that a copy of the seed list was in the file materials that were being sent to us in Beverly Hills. The signed, notarized seed list, which I had been told by our client had been prepared contemporaneously with preparation of the 1984 edition of the directory at issue, was sent to us and a copy of it is in our file in Beverly Hills.

14. During the October 27 telephone conversation with our client, our client emphasized to me the importance that the Lawsuit be filed immediately so that a temporary restraining order could be obtained before Comdex started on Sunday, November 9. During this telephone conversation I told our client that my experience in matters of this type is such that I did not believe that a hearing on the application for a temporary restraining order could be had on the same day that the Lawsuit was filed. During this telephone conversation I told the client that in my experience, the United States District Courts typically allow at least one day, and frequently several days, for defendants to respond to an application for a temporary restraining order or a preliminary injunction. I told our client that in view of Comdex being set on November 9, and in view of my expectation that the court would allow the defendants at least one day if not more in which to respond to the Lawsuit, I shared their belief that the Lawsuit must be filed as soon as possible.

15. Thereafter, on October 28, 29 and 30, 1986, I did further work reviewing and revising the draft papers, including preparing an application for an order sealing the affidavits or declarations to be submitted in support of the application for the temporary restraining order or preliminary injunction, speaking by telephone with counsel for Chromatic Communications and arranging for local counsel Richard W. Freeman, Jr., to file and serve the papers. Our agreement with Mr. Freeman was that our office would prepare all of the papers, including the affidavits, that his office would not be responsible for preparing any papers, and that to the extent possible, his office would arrange for filing and serving of the papers, make all court appearances, and attend all depositions. I have no information that Mr. Freeman or any other attorney in his office did anything in connection with the affidavits, except as set forth below.

16. On Tuesday, November 4 or Wednesday, November 5, I do not recall which, I received a telephone call from Mr. Freeman. He told me that he or someone in his office had just spoken by telephone with the law clerk to the Honorable Samuel Conti, Judge of the United States District Court for the Northern District of California, to whom this case had been assigned. Mr. Freeman told me that the law clerk told him that he, the law clerk, was uncertain as to what it was about the seeds in the plaintiff's directory that caused the plaintiff to believe that the defendants had copied the plaintiff's directory and thereby infringed the copyright. As I recall Mr. Freeman explaining it to me, the law clerk told him that he, the law clerk, had called some of the seeds and had been told by those seeds that they were operating under the

business names set forth in both the plaintiff's and the defendants' directories. Mr. Freeman and I believed that the law clerk had not called all of the seeds. Mr. Freeman and I also believed that because of the manner in which the first sealed affidavit was presented, the law clerk might not have appreciated the specific changes that had been made in particular entries in order to create the seeds in plaintiff's protected directory. Mr. Freeman and I agreed that our office should speak with the law clerk and make certain that he appreciated the changes.

17. I asked Ms. Margolis to speak with the law clerk and with our client to make certain that the law clerk had all of the details concerning the seeds that were necessary to establish that the defendants had infringed plaintiff's protected work. She said she would do so.

18. I am informed and believe that on Wednesday, November 5, Ms. Margolis had a lengthy telephone conversation with our client concerning the detailed changes in the entries that made up the seeds. I also am informed and believe that Ms. Margolis then had a telephone conversation with the law clerk during which she told the law clerk of the details concerning the seeds that she had just been given by the client. The clerk requested copies of the seeds as they appear in Business Guides' directories.

19. Ms. Margolis prepared, and I reviewed, a supplemental declaration to which was attached the copies of the seeds as they appeared in Business Guides' directories.

20. On Thursday, November 6, 1986 I told Ms. Margolis that it was my experience that orally advising the

court of details such as these might not support the entry of a temporary restraining or a preliminary injunction. I recommended to her that there be submitted another supplemental affidavit or declaration by the client, establishing on the record the details that Ms. Margolis had given to the law clerk by telephone.

21. On November 6, I reviewed the defendants' opposition to the plaintiff's application and prepared, filed and served a reply.

22. I am informed and believe that on Thursday, November 6, Ms. Margolis prepared a draft of a supplemental declaration and discussed it by telephone with our client. I also am informed and believe that Ms. Margolis sent that draft by telecopier to Mr. Bamberger in our New York office, and that Mr. Bamberger then took that draft to the client who reviewed it, edited it and signed it.

23. As set forth above, I know of, or am informed of, the following work in connection with the sealed declarations:

- (1) October 27 telephone conversation between Ms. Margolis, Mr. Bamberger, the client and me, during which the client explained how the seed list was prepared and preserved;
- (2) Draft of first declaration or affidavit prepared by Ms. Margolis, and submitted to client for checking, review, approval and execution;
- (3) Review of successful litigation based on this seed list filed by client against subsidiary of Xerox Corporation;
- (4) Review of signed, notarized seed list prepared contemporaneously with preparation of

1984 edition of plaintiff's work at issue in this litigation;

(5) November 5 telephone conversation between Ms. Margolis and the client concerning the details of the seeds, so that Ms. Margolis could convey this information to the court's law clerk;

(6) November 6 telephone conversation between Ms. Margolis and the client during which Ms. Margolis read to the client the supplemental declaration, and the client's indication that it was correct; and,

(7) November 7, delivery by Mr. Bamberger to the client of the proposed supplemental declaration referred to in subparagraph (6), which was reviewed, analyzed, changed and signed by the client.

24. I believed that it was reasonable for our law firm to rely on our client for the accuracy of the matters set forth in the sealed declarations. I am informed that our law firm and the lawyers in our law firm have represented this client for many, many years and have extensive experience with the client in all kinds of legal matters, including other infringement claims. Our client's predecessor company was the plaintiff in one of the seminal pieces of directory copyright infringement litigation, *Chain Store Business Guide, Inc. v. Wexler*, 79 F. Supp. 726 (S.D.N.Y. 1948). In the very recent past, our office represented our client in a lawsuit against a Xerox Corporation subsidiary on an almost identical claim, based on the same seed list at issue here, in which almost identical affidavits or declarations were submitted, in which the same seed list sustained the charge of infringement and in which our client was paid by Xerox a substantial

amount of damages, attorneys fees and costs. Finally, as indicated above, the declarations were checked and rechecked with our client, who corrected them.

25. From the beginning of our work on the Lawsuit, our firm spent approximately 99 hours of lawyer and paralegal time on the Lawsuit. Of this total, Ms. Margolis spent approximately 66 hours, Mr. Bamberger spend approximately 7 hours and I spent approximately 17 hours.

I declare under penalty of perjury that the foregoing is true and correct, except as to the matters set forth on information and belief, and I believe that they are correct.

Executed at Beverly Hills, California this 12th day of December, 1986.

/s/ Michael D. Dempsey  
MICHAEL D. DEMPSEY

(All Exhibits and Certificate of Service  
Omitted in Printing)

EPHRAIM MARGOLIN  
NICHOLAS C. ARGUIMBAU  
240 Stockton St., 3d Floor  
San Francisco, CA 94108  
Telephone: (415) 421-4347

Attorneys for Finley, Kumble, Wagner, Heine,  
Underberg, Manley, Myerson & Casey.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	Case No.
Plaintiff,	)	C 86-6164 SC
vs.	)	DECLARATION
CHROMATIC	)	OF MICHAEL
COMMUNICATIONS	)	A. BAMBERGER
ENTERPRISES, INC. and	)	
MICHAEL SHIPP,	)	
Defendants.	)	

I, MICHAEL A. BAMBERGER, declare:

1. My name is Michael A. Bamberger. Except as to the matters set forth herein on information and belief, I make this declaration of my own personal knowledge. Except as to the matters set forth herein on information and belief, if I were called upon to testify in open court concerning the matters set forth herein, I could do so of my own personal knowledge. As to the matters set forth herein on information and belief, I am informed and believe that they are true.

2. I have practiced law for over twenty-five years. For sixteen years, I have been a partner in the law firm of

Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey (and its predecessors), attorneys for plaintiff Business Guides, Inc. My business address is 425 Park Avenue, New York, N.Y. 10022, telephone number (212) 371-5900.

3. I graduated from Harvard Law School, *magna cum laude*, in 1960. I am presently admitted to the Bars of the State of New York and the District of Columbia, and, in addition to the courts of those jurisdictions, I have practiced in the United States Supreme Court, United States Courts of Appeal for the 2nd, 3rd, 4th, 5th, 7th and 8th circuits, as well as the U.S. District Courts for the Southern and Eastern Districts of New York, to each of which I am admitted.

#### The Plaintiff:

4. Lebhar-Friedman, Inc., of which plaintiff is a subsidiary, has been represented by my law firm since 1982. I personally have represented them in a variety of matters including a copyright infringement action, a number of libel actions, and a series of contract suits. I have further represented them in a number of corporate matters. At all times I have found them reliable and cautious.

5. Lebhar-Friedman, Inc. has for over sixty (60) years been a leading publisher of periodicals and directories dealing with retail and related businesses. Attached hereto as Exhibit "A" is a 1985 brochure describing the major periodicals it publishes and as Exhibit "B" is a brochure describing its 1987 Directories.

#### Plaintiff's Prior Litigations

6. Our client has long been committed to the protection of its copyrighted work product from infringing copiers. As early as 1948, plaintiff was successful in enjoining an infringement of its directory, in part by pointing to errors common to both the copyrighted work and the infringing copy. *Chain Store Business Guide vs. Wexler*, 79 F. Supp. 726 (S.D.N.Y. 1948). As the Court observed there:

"[V]arious errors contained in plaintiff's Exhibit A [plaintiff's book] are listed in Exhibit A-1 [the copy]. . . .

That this is no mere coincidence can hardly be questioned." (p. 728)

Thus, when we began to represent this client, we became aware of its history as a practiced protector of its copyrights.

7. More recently, late in 1984 we prepared a copyright infringement action and a motion for injunctive relief in the United States District Court in the Southern District of New York on behalf of plaintiff herein against R. R. Bowker, then a division of Xerox Corporation. The evidence of infringement upon which we based the case was "seeds" prepared by our client. "Seeds" are a common way to protect such directories or other works from copyright infringements. A "seed" is created when the publisher takes an accurate listing and makes one or more alteration in that listing. It can also consist of a wholly "false" listing.

If those "seeded" listings appear in competitive publications, their presence provides the strongest evidence of the copying of plaintiff's work.

8. After review of the complaint, and related motion papers, Xerox/Bowker was convinced of the validity of the claim and settled the case on a very favorable basis for Business Guides, Inc. The settlement included payment of plaintiff's attorneys' fees, an agreement to destroy all copies of the offending material and an agreement not to publish a competing directory prior to 1986. It is particularly interesting to note that one of the copyrighted works in this action is the same book as that in the Xerox/Bowker case. Most importantly, we believe that the seeds for the 1984 book in the Bowker case were the same as those here.

9. The reason I state this history to the Court is that, when our client came to us with a request that we deal with an infringement by defendants, we, as lawyers, had a strong belief in the client's integrity, the soundness of its seeding process and its reliability in making claims of copyright infringement.

#### The Origin of this Case

10. In the fall of this year, I had a number of meetings with Victoria White, Associate Director, Mail Marketing Resources, of plaintiff. She advised me that plaintiff was experiencing problems of infringement of various of its directories by persons selling competing mailing lists. With an associate in our New York office, we prepared a form cease and desist letter and sent it to a number of companies in the field.

11. Early in October, 1986, Ms. White, called me and stated that a company on the West Coast had copied from their Directory of Computer + Software Dealers, and was selling a diskette which contained the retail outlet information of its directory. Ms. White told me that the competing list was plainly copied from hers. The basis of her belief that infringement had occurred was the existence of a number of Business Guides "seeds" appearing on a printout of the diskette.

12. Ms. White said that it was important to get an injunction prior to the commencement of a computer industry trade fair known as the Comdex trade fair, scheduled for Las Vegas early in November. The advent of such a trade fair creates a significant sales opportunity for lists such as plaintiff's to be sold. Ms. White further said that the competing infringing list on the diskette was being sold for substantially less than plaintiff was able to sell its diskette. She attributed the lower competitive price to the fact that Chromatics did not have the initial cost of procuring and building up the list which plaintiff had to bear.

13. I then contacted Jeffrey Charlston, the partner in our Beverly Hills Office responsible for administering the litigation department and assigning attorneys. I informed him of the nature of the matter, to which he assigned Lisa Margolis, a seasoned litigation associate in our Beverly Hills office. I told Ms. Margolis the history of the matter, mentioned to her the similar case we had handled against Xerox for this client here in New York, suggested that she be directly in contact with Ms. White to get a firsthand understanding of the facts. In a series of subsequent calls

I was kept up to date on the progress of the matter and contributed to discussions of strategy and mechanics.

14. On the evening of November 6, 1986, Lisa Margolis called me to say that we would be shortly receiving on our computer in New York a supplemental declaration to be executed by Michael Lambe, one of the plaintiff's executives, and that the declaration was to be submitted to the Court to support our motion for injunctive relief. She asked that I have it reviewed and signed by Mr. Lambe, and that I have it transmitted by telecopier to a receiving location in San Francisco so that she could pick it up and take it to court.

15. On the morning of November 7, 1986, I received the draft declaration from our word processing department and, first thing in the morning (to the best of my recollection at about 9 o'clock A.M.), met with Michael Lambe in the reception area of his office (which is on the 5th floor of the same building in which my office is located). We sat in his reception room where he started to read it after I requested that he review it for accuracy. I told him I would return in about two hours to give him time to complete his examination of its contents.

16. Approximately two hours later I returned to the office of Business Guides, Inc. Mr. Lambe told me that he had not only gone over the declaration carefully, but had received the back-up material as well, and that there was a single paragraph with whose content he was not sufficiently comfortable to include in verified court papers. Due to the time constraint, at my suggestions we simply crossed out that paragraph. He then gave me several other documents which he wanted me to send to Lisa

Margolis which he believed supported our position. I then transmitted both the declaration and the additional materials to San Francisco.

17. On another occasion I was on a telephone conference call with Michael Lambe, Victoria White, Lisa Margolis, and Michael Dempsey. During that conference call, we questioned Mr. Lambe and Ms. White about the accuracy and reliability of the "seeds." We were advised that in infringing our clients lists, the defendants eliminated or did not utilize some of the more obvious "seeds." However, they still utilized several "seeds" as will be more fully discussed below. This discussion occurred before the petition was filed.

18. The following seeds from plaintiff's Directory were incorporated into the defendant's Directory:

(a) A nonexistent corporation named "NFR Computer Room," a name invented by the plaintiff with an address which is the address of an employee of the plaintiff.

(b) An entity named "Computers & Applications, Telephone (206) 451-8077, 10623 N.E. 8th Street, Bellevue, Washington, 98004, store manager David "Choi." The store manager's name is actually spelled "Choy" and was changed to "Choi" to create a "seed."

(c) An entity named "Computer Discount of America." This is a name which the plaintiff invented. The correct name of the firm in 1984 and 1985 was "Computer Discount of New Jersey." (Although not relevant to the issue, this company recently changed its name and is now called, "World of Computers."

I believe that on the basis of the first "seed" alone, both an application and a temporary restraining order should have been justified. When the three above-named "seeds" are taken together, it is clear to me that the plaintiff is correct in his allegations and the temporary restraining order could well have issued in the absence of the remaining "seeds."

Concerning the three remaining "seeds," plaintiff explained to us in a plausible manner subsequent to the hearing before Judge Conti the reasons for his representations. If required to do so, I am prepared to tender the explanations during this hearing.

19. Since my October 1986 conversation with Victoria White, I have believed, and continue to believe, that plaintiff has meritorious cause of action in this case.

I declare under penalty of perjury that the foregoing is true and correct.

Executed in San Francisco, California, on December 15, 1986.

/s/ Michael A. Bamberger  
MICHAEL A. BAMBERGER

(Certificate of Service  
Omitted in Printing)

EPHRAIM MARGOLIN  
NICHOLAS C. ARGUIMBAU  
240 Stockton Street, 3d floor  
San Francisco, CA 94108  
Telephone: (415) 421-4347

Attorneys for Finley, Kumble, Wagner,  
Heine, Underberg, Manley, Myerson & Casey

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.	)	No. C 86 6164 SC
Plaintiff,	)	
vs.	)	DECLARATION
	)	OF LISA B.
CHROMATIC	)	MARGOLIS
COMMUNICATIONS	)	
ENTERPRISES, INC., and	)	
MICHAEL SHIPP,	)	
Defendants.	)	

I, LISA B. MARGOLIS, do hereby declare as follows:

1. I am an attorney duly licensed to practice before all of the courts of the States of California and New York and the United States Courts of Appeal for the District of Columbia, Second, Ninth, and Tenth Circuits. I am an associate with the law firm of Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey (the "Firm"), counsel for plaintiff, BUSINESS GUIDES, INC. Except as to those matters set forth herein on information and belief, if I were called upon as a witness to testify, I could do so of my own personal knowledge. As to the matters set forth herein on information and belief, I am informed and believe that they are true. I make this

declaration in connection with the Order of the United States District Court that the Magistrate conduct an inquiry into the preparation of sealed affidavits filed in the litigation known as *Business Guides, Inc. v. Chromatic Communications, Inc., et al*, C-86-6164 SC (the "lawsuit").

2. I believe that the lawsuit was based on reasonable inquiry and is well grounded in fact. I am informed and believe that our client has had experience in copyright infringement cases in the past. Specifically, I am informed and believe that our client brought a case involving the directory at issue here against a subsidiary of the Xerox Corporation, in which it alleged that that Xerox subsidiary had copied its directory, including its "seeds" - i.e., false entries and entries with noticeable spelling errors planted in plaintiff's directory for the purpose of identifying copyright infringers. I am further informed and believe that Xerox settled the case and paid our client a substantial sum of money in damages, attorney fees, and costs. As set forth in more detail in this declaration, I believe that the inquiry concerning our client's "seed" list was reasonable, that the prior successful use of the client's same "seed" list in other litigation is an indication that the lawsuit is well grounded in fact, and that what I understand to be the Court's finding that at least two of the six seeds at issue were copied by the defendants from the plaintiff's directory also indicates that the initial lawsuit is well grounded in fact.

3. As set forth in more detail below, the information that was presented to the Court concerning what had been altered in each "seed" was obtained from Michael Lambe, the Director of Research at BUSINESS GUIDES, INC., which I am informed and believe is a division of

Lebhar-Friedman, Inc. Mr. Lambe communicated that information to me over the telephone. Subsequently, I prepared a declaration for Mr. Lambe's signature setting forth that information. I read the declaration to Mr. Lambe over the telephone, and he requested revisions which I incorporated. I sent the revised declaration via fax to Michael Bamberger, a partner in the Firm's New York office. I am informed and believe that Mr. Bamberger asked Mr. Lambe to review the declaration and that Mr. Lambe reviewed and edited the declaration before signing it. The information contained in Mr. Lambe's declaration is supported by notarized statements in the Firm's file from a prior case and notarized statements that Lebhar sent to the Firm in connection with the lawsuit.

4. On October 8, 1986, Jeff Charlston, the partner in charge of the assignment of litigation cases in the Firm's Beverly Hills office, asked me to call Michael Bamberger, a partner in the New York office, regarding a copyright infringement case. When I called Mr. Bamberger, he advised me that one of his clients, Lebhar-Friedman, Inc., publishes trade periodicals and business directories and that someone in Silicon Valley had copied its directory of computer stores and retailers. He explained that the client knew that its list had been copied because it had planted "seeds" in the list and because the infringer had copied those entries. He stressed that it was necessary to act as quickly as possible because an important convention was scheduled in November. He asked me to prepare and send a quick cease-and-desist letter and to call Victoria White, who is

an Associate Director at Lebhar-Friedman, to collect all the information.

5. When I called Ms. White, she advised me that the infringer was CHROMATIC COMMUNICATIONS ENTERPRISES, INC. ("Chromatic"), P. O. Box 3249, Walnut Creek, California 94598. Ms. White also stated that although Lebhar believed that Chromatic had started infringing its directory in 1983 or 1984, it had only recently discovered the infringement. She also advised me that Lebhar had purchased the infringer's list approximately three weeks prior to our conversation and that Lebhar knew that Chromatic had infringed its directory because Chromatic had copied the "seeds." She mentioned that Lebhar had been involved in and was successful in a similar case involving R. R. Bowker, a division of Xerox.

6. Ms. White further advised me that Chromatic's product is entitled "MicroLeads" and that Lebhar-Friedman's written directory is entitled the "Directory of Computer & Software Retailers." She added that Lebhar also sells the directory in the form of a diskette. She said that Chromatic had bought Lebhar's printed directory, reformatted it, and was selling it on a diskette. She said that she knew people that had purchased Chromatic's product and stressed that it was necessary to act as quickly as possible because a trade show was scheduled for November 9, 1986.

7. Because Ms. White had suggested that I obtain some of the materials from the Bowker case, I again called Mr. Bamberger, and he arranged for those materials to be sent. The documents received included a cease-

and-desist letter. Based on that letter, as well as on the facts, as explained to me by Ms. White and Mr. Bamberger, I drafted a cease-and-desist letter to Michael Shipp, Chromatic's President. I faxed a draft to Mr. Bamberger on October 14, 1986, for his review. We discussed the draft over the phone, and Mr. Bamberger's only suggestion was that I shorten the time period that I had given Mr. Shipp to respond to our letter from ten to five days. I made that change and sent the letter to Mr. Shipp via Federal Express on October 14, 1986. A copy of that letter is attached hereto as Exhibit "A." Because Ms. White had given me a post office box number, I instructed my secretary to obtain Chromatic's telephone number from information and to call Chromatic to obtain a street address so that the letter could be delivered by Federal Express. My secretary made the phone call and then sent the letter by Federal Express.

8. On the morning of October 16, I received a telephone call from Federal Express advising me that the letter could not be delivered to the address that Chromatic had given my secretary. I called Chromatic myself to try to obtain a correct street address, but the woman that answered the phone refused to give it to me. In order to insure that the letter was delivered as quickly as possible, I arranged for an air courier to deliver the letter to the Post Office at which Chromatic's post office box is located in Walnut Creek, California. I changed the date on the letter that I had previously sent and requested that Chromatic respond to our demand by October 22, 1986. A copy of that letter is attached hereto as Exhibit "B."

9. On October 20, 1986, I received a telephone message from John Cornelius, attorney for Chromatic and Mr.

Shipp. Although I immediately attempted to return the call, I was unable to reach Mr. Cornelius until October 22, 1986. When I spoke with Mr. Cornelius, he advised me that Mr. Shipp used independent resources to compile his product; that Mr. Shipp had not seen or heard of Lebhar-Friedman's directory; and that Mr. Shipp had telephone bills to show that he had talked to each of the entries in his directory. Mr. Cornelius also said that he was very busy and that he would not be able to prepare a letter until after he met with Mr. Shipp on October 24, 1986.

10. I called Ms. White to advise her of my telephone conversation with Mr. Cornelius and to ask her how she wanted me to proceed. She advised that she wanted to consult with her people and get back to me.

11. On October 23, 1986, I spoke with Ms. White and she advised me that she wanted me to obtain a temporary restraining order. I then spoke with Mr. Bamberger, who instructed me to put a complaint together and to call Mr. Cornelius to see if he would accept service of process. As I recall, Mr. Bamberger added that he would send me the entire Bowker file in the pouch. He also said that he wanted Michael Dempsey of the Beverly Hills office to work on the case with me. He asked me to speak with Mr. Dempsey to see if he had the time to devote to the matter. I spoke with Mr. Dempsey and he said he would be happy to work on the case with me. I began researching and preparing the necessary papers.

12. On October 24, 1986, I called Mr. Cornelius and asked him if he would accept service of process on behalf of his client. He advised me that he would have to check

and get back to me. I also called Yvonne LaRose, a paralegal, in the Firm's Los Angeles office, and asked her to ascertain the name and address of the agent for service of process for Chromatic. When she called me back with the information, she advised me that Chromatic had failed to pay its corporate franchise taxes.

13. On October 24, 1986, I also spoke with Mr. Dempsey, who advised me that it was important to start preparing the affidavits as soon as possible because they would have to be signed by the client. Accordingly, I began to prepare the affidavits, using material available to me, including affidavits that had been prepared in the Bowker case, which were in the file that Mr. Bamberger had sent me. Also included in the file was a list of "seeds" from the 1984 edition of Lebhar's directory. A copy of that list is attached hereto as Exhibit "C." That list includes some of the "seeds" that also appear in Chromatic's directories. In preparing the affidavits I realized that I needed further factual information from the client.

14. I spent Saturday afternoon and all day Sunday completing the affidavits as best I could and researching and preparing the memorandum of law, the complaint, the first set of interrogatories, and the first set of requests for admissions. In preparing those papers, I used the documents from the Bowker file as a guide.

15. On Monday morning, October 27, 1986, at 8:00 a.m., California time, I called Ms. White and advised her of the information that I needed to complete the affidavits. I told her that, among other things, I needed copies of the "seeds" as they appeared on Chromatic's

diskette and information as to the costs of preparing the recent editions of Lebhar's directory and its diskette product. Although Ms. White provided me with some of the information that I needed, she said that she would have to get back to me with the rest of it. In providing me with the details regarding Lebhar's discovery of the infringement, Ms. White pointed out that Lebhar had been publishing directories for fifty-five years.

16. On that same day, October 27, 1986, I received a letter from Mr. Cornelius, a copy of which is attached hereto as Exhibit "D." I called Mr. Bamberger to advise him that I had received the letter and he arranged a conference call with me, Ms. White, Mr. Lambe, and himself. After the four of us had discussed the letter for a few minutes, Mr. Bamberger suggested that we include Mr. Dempsey in the conference. Accordingly, I went to Mr. Dempsey's office and we resumed the telephone conference from there. During that conversation, Ms. White and Mr. Lambe reiterated that Mr. Shipp had copied the "seeds" from Lebhar-Friedman's directory. They stated that although Mr. Shipp had not copied all of the false entries, at the very least he had copied more subtle "seeds" which contained intentional spelling and other errors. Mr. Bamberger pointed out that the odds of these same typographical and spelling errors occurring by chance in both directories were very small. We agreed that we would send a letter to Mr. Cornelius simultaneously with the lawsuit stating out basic position and that although we wanted to avoid litigation we had no choice but to go ahead with the lawsuit, given the short time before the Comdex Trade Show scheduled for November 9, 1986. I asked Ms. White and Mr. Lambe to

explain the significance of the Comdex Trade Show. They explained that the Comdex Show was held semi-annually, that it was the largest trade show for the microcomputer market place, and that it allowed them to market their product to a captive audience.

17. As I recall, on October 27, 1986, I received a letter from Ms. White dated October 24, 1986. Attached to the letter was a list of "seeds" that Chromatic had copied in its diskette and an explanation of how each "seed" had been altered. A copy of that letter is attached hereto as Exhibit "E."

18. On October 27, 1986, I gave Mr. Dempsey my proposed draft of the papers to be filed, including a complaint, an application for a temporary restraining order, a memorandum of law, and an order to show cause. He suggested some revisions which I incorporated. He also suggested that I prepare separate applications for the submission of affidavit *in camera* and the request for expedited discovery, which I had included in the memorandum of law. Accordingly, I revised my papers and prepared new applications for the submission of affidavit *in camera* and for expedited discovery and supporting memoranda of points and authorities, affidavits, and proposed orders.

19. On October 28, 1986, to the best of my recollection, although Ms. White gave me part of the information that I needed to complete the affidavits, she still did not have all of the financial information that I had requested regarding the costs of preparing Lebhar's directory. To expedite the process, I faxed copies of the affidavits that I

had prepared for Andrew DeSarle, Mr. Lambe, and Victoria Burdick, a sales representative at Mail Marketing Resources, which is a division of BUSINESS GUIDES, INC., to Ms. White for her and their review. Ms. Burdick's affidavit stated, among other things, that Chromatic's directory included the "seeds" from Lebhar's directory, and copies of the "seeds" as they appeared in Chromatic's directory were attached as an exhibit.

20. On October 27 or 28, 1986, I do not recall which, Ms. White also advised me that it was necessary to change the papers that I had prepared because she had discovered that Mr. Shipp had used Lebhar-Friedman's product in preparing not only his diskette but his printed directories as well. Accordingly, further changes had to be made. Ms. White also wanted changes made in each of the affidavits. I made those changes and faxed them back to her on October 29.

21. On October 29, 1986, I received materials that Ms. White had send me via our Firm's pouch, including copies of the "seeds" as they appeared in each of Chromatic's directories. A copy of those documents is attached hereto as Exhibit "F". I had told Ms. White that I needed those copies so that they could be attached to Ms. Burdick's affidavit. Also enclosed in the materials that I received from Ms. White were notarized statements specifying how each of the "seeds" had been altered and which of the seeds were totally false. A copy of those statements is attached hereto as Exhibit "G".

22. On October 29, 1986, I sent the complaint, the application for temporary restraining order, the affidavits, and the related papers to Richard Freeman, our

local counsel. Those papers included Ms. Burdick's affidavit, as revised pursuant to Ms. Burdick's instructions, with copies of the "Seeds" as they appeared in Chromatic's directories attached to it. A copy of that affidavit is attached hereto as Exhibit "H."

23. On October 30, 1986, Mr. Freeman advised me that he had presented the papers to the court and that Mr. Cornelius had to be served as quickly as possible. Prior to that date, Mr. Cornelius had advised me that he was authorized to accept service of process. Mr. Freeman asked that I make arrangements for a process server in San Francisco to serve the papers, and I contacted a process server in San Francisco who said that he would attempt to effect service of process that evening.

24. On November 4, 1986, Mr. Freeman called to advise me that the hearing was scheduled for November 7, 1986. Later that same day, Mr. Dempsey called me to advise me that Mr. Freeman had told him that Judge Conti's clerk, Robert Funston, had requested further information regarding the "seeds." Mr. Dempsey asked that I call Mr. Funston directly. I called Mr. Funston, and he told me that he wanted to know specifically what had been altered in each "seed." I told him that I would call the client and obtain the information. Accordingly, I called Mr. Lambe. He went through the "seeds" with me and told me what had been altered in each one. He told me that one of the "seeded" addresses was the home address of a Lebhar employee.

25. I then called Mr. Funston and relayed to him the information that Mr. Lambe had communicated to me. Mr. Funston also requested copies of the "seeds" as they

appeared in Lebhar Friedman's directories. Accordingly, I called Ms. White and asked her to send me copies of the "seeds" as they appeared in the 1984 and 1985 directories and prepared an accompanying supplemental affidavit for Ms. Burdick's signature. I did not need copies of the seeds from the 1986 directory because Ms. White had previously sent me a copy of that directory. I faxed the affidavit that I had prepared to Ms. Burdick, and she signed it and faxed the signature page back to me the next day. I sent the supplement to her affidavit to Mr. Funston by air courier on November 5, 1986. A copy of that supplement to the affidavit is attached hereto as Exhibit "I."

26. On November 5, 1986, Mr. Freeman advised me that he had received an opposition from Chromatic and a declaration of Mr. Shipp. I asked him to have those papers delivered to me by air courier, and I received those papers at my home at approximately 10:00 p.m. that night.

27. Because I had a deposition scheduled on November 6, 1986, Mr. Dempsey prepared the reply to Chromatic's papers. We faxed our reply to a law firm in San Francisco which then delivered it by messenger to the court. After the deposition, I had a conference with Mr. Dempsey regarding my preparation for the argument which was scheduled for the next day. He said that he felt we could clarify and strengthen our papers by stating what had been altered in each of the "seeds." I further consulted with Mr. Freeman on this matter. He suggested that I prepare a new affidavit specifying what had been altered in each "seed" and file it the next day prior to the argument. Accordingly, I prepared the affidavit as

quickly as possible and called Mr. Lambe at home. I read him the affidavit over the phone and he asked that I make some revisions which I incorporated into the affidavit. I then called Mr. Bamberger at his home and advised him that I would have the affidavit transmitted by Wang to New York and gave him a fax number so that he could fax the signed affidavit to San Francisco the next morning. Mr. Freeman's associate, Peter Ottenweller, agreed to pick up the faxed affidavit and deliver it to the courthouse.

28. The next morning I flew to San Francisco for the hearing. Mr. Ottenweller met me at the courthouse, and we gave the faxed signed copy of Mr. Lambe's affidavit to Mr. Funston for filing. A copy of that affidavit is attached hereto as Exhibit "J."

I declare under penalty of perjury under the laws of the United States and the State of California that the foregoing is true and correct.

Executed on this 15th day of December 1986, at Beverly Hills, California.

/s/ Lisa B. Margolis  
LISA B. MARGOLIS

## EXHIBIT "A"

FINLEY, KUMBLE, WAGNER, HEINE,  
UNDERBERG, MANLEY, MYERSON & CASEY

A Partnership Including Professional Corporations

9100 WILSHIRE BOULEVARD  
BEVERLY HILLS, CALIFORNIA 90212

[Letterhead Omitted In Printing]

October 14, 1986

VIA FEDERAL EXPRESS

Michael Shipp, President  
Chromatic Communications, Inc.  
P.O. Box 3249  
Walnut Creek, California 94598  
Re: *MicroLeads*

Dear Mr. Shipp:

We represent Business Guides, Inc., which is the publisher of the 1984 through 1986 volumes of the "Directory of Computer & Software Retailers." It has come to their attention that you have published and are promoting and selling the above-referenced directory on diskettes listing the various retail outlets and distributors involved in the sale of computers, software and related products, and that you used our client's directory and the data contained there in preparing your directory in a manner that violates the copyright laws and constitutes unfair competition. It has also come to their attention that you are mispresenting the source of your directory information in your promotional materials.

We demand that you acknowledge to us that you will immediately cease and desist marketing the above-referenced directory and destroy all existing diskettes of the

directory; that you will immediately cease and desist promoting the above-referenced directory and destroy all existing promotional materials; that all information received by you as a result of the unlawful use of our client's directory will be destroyed, whether in the form of notes, or otherwise; and that all other papers prepared using information contained in or obtained as a result of our client's directory will be destroyed. We doubt whether, in light of the unlawful use of our client's directory, you can publish any similar directory which is not tainted by these unlawful acts.

We request a satisfactory answer from you within five days, failing which, we have been instructed to taken such action as may be required to protect out client's rights.

Very truly yours,

/s/ Lisa B. Margolis  
Lisa B. Margolis for  
Finley, Kumble, Wagner, Heine,  
Underberg, Manley, Myerson &  
Casey

LBM:ts

cc: Michael A. Bamberger  
Victoria White

**EXHIBIT "B"**

FINLEY, KUMBLE, WAGNER, HEINE,  
 UNDERBERG, MANLEY, MYERSON & CASEY  
 A Partnership Include Professional Corporations  
 9100 WILSHIRE BOULEVARD  
 BEVERLY HILLS, CALIFORNIA 90212

[Letterhead Omitted In Printing]

October 16, 1986

Michael Shipp, President  
 Chromatic Communications, Inc.  
 P. O. Box 3249  
 Walnut Creek, California 94598

Re: *Microleads*

Dear Mr. Shipp:

We represent Business Guides, Inc., which is the publisher of the 1984 through 1986 volumes of the "Directory of Computer & Software Retailers." It has come to their attention that you have published and are promoting and selling the above-referenced directory on diskettes listing the various retail outlets and distributors involved in the sale of computers, software and related products, and that you used our client's directory and the data contained therein in preparing your directory in any manner that violates the copyright laws and constitutes unfair competition. It has also come to their attention that you are misrepresenting the source of your directory information in your promotional materials.

We demand that you acknowledge to us that you will immediately cease and desist marketing the above-referenced directory and destroy all existing diskettes of the

directory; that you will immediately cease and desist promoting the above-referenced directory and destroy all existing promotional materials; that all information received by you as a result of the unlawful use of our client's directory will be destroyed, whether in the form of notes, or otherwise; and that all other papers prepared using information contained in or obtained as a result of our client's directory will be destroyed. We doubt whether, in light of the unlawful use of our client's directory, you can publish any similar directory which is not tainted by these unlawful acts.

We request a satisfactory answer from you by October 22, 1986, failing which, we have been instructed to take such action as may be required to protect our client's rights.

Very truly yours,

/s/ Lisa B. Margolis  
Lisa B. Margolis for  
 Finley, Kumble, Wagner,  
 Heine, Underberg, Manley,  
 Myerson & Casey

LBM:jmr

cc: Michael A. Bamberger  
 Victoria White

## EXHIBIT "D"

JOHN M. CORNELIUS  
ATTORNEY AT LAW  
P O BOX 271922  
CONCORD, CALIFORNIA 94520

TEL (415) 927-1996

October 24, 1986

Lisa B. Margolis, Esq.  
Finley, Kumble, Wagner, Heine,  
Underberg, Manley, Myerson & Casey  
9100 Wilshire Boulevard  
Beverly Hills, California 90212

Re: Your letter of Oct. 16, 1986 to Chromatic Communi-  
cations, Inc.

Dear Lisa,

This letter is being sent in response to your October 16, 1986 letter to Michael Shipp, President of Chromatic Communications, Inc. Mr. Shipp has retained this office and all future communications on this subject should be directed to me, per our telephone conversation of October 24th.

Enclosed is a copy of a letter addressed to me from Michael, responding to the various accusations contained in your letter of October 16th. I suggest you convey this letter to your principals. The final paragraph of the letter conveys the bottom line; please consider this before attempting any further actions against Chromatic Communications.

Sincerely,

/s/ John M. Cornelius  
John M. Cornelius

cc: Michael Shipp

CHROMATIC  
COMMUNICATIONS

John Cornelius  
1416 Sunshine Drive  
Concord, CA 94520

Mr. Cornelius:

1. No one at Chromatic Communications Enterprises, Inc. has ever bought, borrowed or seen any publication known as "The Directory of Computer and Software Retailers" published by Business Guides, Inc.
2. All data included in MicroLeads™ was collected via (1) lists supplied to us by manufacturers and franchisors, (2) lists developed from telephone directories, (3) buyers of our other publications, (4) leads collected through our appearances at Comdex since 1983 and (5) newspaper advertisements from around the country.
3. All data included in MicroLeads™ has been verified via telephone interviews with the owners/store managers of each and every entry in MicroLeads™ prior to each publication of the directory.
4. All data included in MicroLeads has been marketed in various forms since early 1984.
5. Lebhar-Friedman (in New York) is the parent company of Business Guides, Inc. Since early 1984 they have been receiving at their various publishing offices a variety of direct mail pieces promoting our "Directory of Microcomputer Retailers" and MicroLeads™. Why have they waited almost three years to get in touch with us over this matter? I believe this is a typical case of a large

company (Lebhar-Friedman sales are in excess of 50 million annually) attempting to put their competition out of business.

6. According to the attached promotional piece their guide lists 12,750 stores. If we did in fact copy their publication why would we not duplicate the entire directory? Our directory currently includes, 4,954 store locations.

We would be willing to do the following:

1. Show to you or your agent all documents including but not limited to telephone bills, manufacturer supplied lists, newspaper clippings, etc. that were used to compile MicroLeads™ at your convenience in our lawyers offices.
2. Perform a line by line comparison of both present and past Chromatic Communications Enterprise, Inc. directories with your directories at our lawyers offices.

We will continue to publish and market MicroLeads™ as all information contained therein was and currently is developed independent of any other directory within this industry. Furthermore, any continued obstruction of out business by you or your agents will result in a law suit being filed to prevent such interference.

Sincerely,

/s/ Michael Shipp  
Michael Shipp  
President

# EXHIBIT "G"

## COMPUTER + SOFTWARE RETAILERS

Company Name City, State	As Appears In 1984 Edition	Correct Information
Eagle Micro Systems, Inc., Auburn, AL	Auburn 63830	Auburn 36850
Computerland Dothan, AL	Robert C. Gilpin - President, Buyer.	Leonard Layne - President, Buyer.
Warehouse Software Glendale, AZ	Susan Jones - Shipping Mgr.	Susan Kaiser - Shipping Mgr.
Data IV Computer Store Yuma, AZ	602 344-4400	602 344-4440
Concord Computer Products Anaheim, CA	John Foeldi - VP.	John Foeldi - VP.
Triangle Computer Systems Campbell, CA	Campbell 95588	Campbell 95008

<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
Computerland Citrus Heights, CA	Gil Satrom - Partner.	Gar Satrom - Partner.
Dan Dee Computers Citrus Heights, CA	6103 Sunrise Mall	6013 Sunrise Mall
Coast Computer Center Costa Mesa, CA	Mike Seigrist, Jr. - GM, Marketing Mgr, Sales Mgr, Buyer.	Steve Purres - GM, Marketing Mgr. Sales Mgr, Buyer.
Computer Business Store Costa Mesa, CA	Costa Mesa 12626	Costa Mesa 92626
Coolsol, Inc., Costa Mesa, CA	Costa Mesta	Costa Mesa
Computers Unlimited Dana Point, CA	714 661-9793 Robert Wieland - President, Buyer.	714 661-8062 Robert Willard - President, Buyer.
The Floppi Disk, Inc., Downey, CA	Cory E. Larson - GM.	Cory E. Larsen - GM.

<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
Computerland Fairfield, CA	Dale Colman - GM.	should not have appeared
Micro Pacific Computer Center Fresno, CA	Diana Madsano - Buyer.	Diana Medrano - Buyer.
Patio Computer Sales Company North Hollywood, CA	213 762-0020	818 762-0020
Dow Radio, Inc., Pasadena, CA	Pasadena 91107	Pasadena 91106
DuWayne Industries, Inc., Pleasant Hill, CA	415 432-4373	415 932-4373
Information Please San Francisco, CA	415 788-4636	415 788-3971
Almanac Computer Supply, Co., Santa Cruz, CA	408 525-1980	408 425-1980

<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
Data Systems West Sherman Oaks, CA	213 872-3479	818 907-9110
Unicomm, Inc., Tarzana, CA	213 996-5722	818 996-5722
McCormick Computer Systems Torrance, CA	2942 Rolling Hills Road	2943 Rolling Hills Road
Logic Tree Computer Whittier, CA	10053 Whitwood Dr.	10053 Whittwood Dr.
Ram Computer Center Acton, MA	Mat Leona - Educational Specialist	Matt Leona - Educational Specialist.
The Computer Store, Inc., Sudbury, MA	Howard Levingston, Sr. - VP, Adv.	Howard Levingston, Sr. - VP, Adv.
Computerland Wellesley, MA	Robert Robichaux - ExVP, GM, Buyer.	Robert Robischaud - ExVP, GM, Buyer.
The Software Store Marquette, MI	706 Ippewa Square	706 Chippewa Square

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<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
Computerland Saginaw, MI	3545 Bay Rd.	3845 Bay Rd.
The Listening Post And Book Company Saginaw, MI	The Listening Post And Book Store	The Listening Post and Book Company
Rite Way Enterprises, Inc., Warren, MI	Ronald Keiler - Adv Mgr, Sales Mgr.	Ronald Kieler - Adv Mgr, Sales Mgr.
Computer Professionals, Burnsville, MN	Glenn V. Cronquist - President, Buyer.	Glenn V. Gronquist - President, Buyer.
Computer King Minneapolis, MN	710 S. France Ave.	7101 S. France Ave.
Computer Hdwe, Kearney, NE	Tom Meyers - Sales Mgr.	Tom Meyers - Sales Mgr.
Computersmart Omaha, NE	402 291-3105	402 291-3050

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<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
The Bottom Line Milford, NH	P. O. Box 432	P. O. Box 423
Computech Business Systems, Inc., Plaistow, NH	Harry Sider - Service Mgr. Annie Ardo - Office Mgr.	Hugh Sider - Service Mgr. Annie Arbo - Office Mgr.
A Computer Solution Basking Ridge, NJ	201 766-3977	201 766-2634
Computer Encounter Lawrenceville, NJ	2936 Brunswick Rd. 06848	2936 Brunswick Pike 08648
Micro Business Systems Parsippany, NJ	07058	07054
Entre Computer Center Princeton, NJ	47 State Rd. Rte. 306	47 State Rd. Rte 206
Felice's Follies Red Bank, NJ	47 Brood St.	47 Broad St.

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<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
Computer Discount of New Jersey West Milford, NJ	Computer Discount of America	Computer Discount of New Jersey
Computerland Albuquerque, NM	78112	87112
KSA Corporation Albuquerque, NM	Albuquerque	Albuquerque
Software City Great Neck, NY	11012	11023
Computer Systems & Technology, Inc., Long Island City, NY	Computer Channel	Computer Systems & Technology, Inc.,
Creative Systems Electronics, Inc., Niagra Falls, NY	John Muebschmann - VP, Buyer	John Huebschmann - VP, Buyer
Software City Syracuse, NY	Jeff Nobensky - Partner, Buyer.	Jeff Norensky - Partner, Buyer.
Computerland Columbus, OH	Dayton	Columbus

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<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
Programs Unlimited Columbus, OH	Worthington	Columbus
Austin Business Computers Austin, TX	Barbara Borttorff - VP, Store Operations, Adv Mgr., Buyer.	Barbara Bottonff - VP, Store Operations, Adv Mgr., Buyer.
Yes Computer Bryan, TX	77840	77802
Software Center Dallas, TX	Jose Deiasia - Owner, GM, Buyer.	Jose Delaisia - Owner, GM, Buyer.
Micro Logic Computer Store El Paso, TX	9520 Viscount Suite, 2F	9530 Viscount, Suite 2F
Irving Computers Irving, TX	214 254-6850	214 790-0908
CSI Plano, TX	214 423-3362	214 423-3262

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<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
Shepard & Vick Computer Professionals, Inc., Richardson, TX	75231	75080
Computer Electronics, Inc., Tyler, TX	Linda Richard Volerez - VP.	Linda Richard - VP.
Computerland Victoria, TX	3112 F. North Nauarro	3112 F. North Navarro
Computer Concepts Richmond, VA	804 260-1122	804 266-1122
Computerland Woodbridge, VA	703 690-6213	703 491-4151
Entre Computer Center Bellevue, WA	89004	98004
Computer Access Learning Center, Inc., Federal Way, WA	206 874-3540	206 874-2540

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Davidson's Computer Center, 1275 15th St.  
Telephone Unpublished

Fort Lee 1  
07024

Product Lines: Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; Supl. System Units

Computer Models: Columbia Data Products MPC; Commodore VIC-20

Sales: \$1,750,000 (1983 Estimated)

% Sales: 70 (hardware); 30 (software)

Leases Hardware: Yes, 10%

Number Of Stores: 1

Projected # Stores: 1 (1/85)

Private Label: Software, Supplies, Accessories

Services: Repair/Educational/On-Site Training

Year Founded: 1981

RITA DAVIDSON - President, Buyer.

NFR Computer Room, 87-32 253rd St.

Telephone Unpublished

Product Lines: Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; Supl. System Units

Bellerose 3  
11426

Computer Models: Commodore VIC-20

Sales: \$2,600,000 (1983 Estimated)

% Sales: 75 (hardware), 25 (software)

Number Of Stores: 3

Projected # Stores: 3 (1/85)

Private Label: Software, Supplies

Services: Repair/Educational/Hot-Line/On-Site Training

Year Founded: 1981

NICK ROSSINI - President, Buyer.

This is to certify that the above list contains planted errors in the 1984 Directory of Computer + Software Retailers published by Business Guides, Inc.

DATE: 9 November 84

TITLE: Editor - New Property Development

11/9/84

NAME: Victoria M.K. Burdick

SIGNATURE: /s/ Victoria M.K. Burdick

Sworn to and attested by

/s/ Barbara Hochberg  
**BARBARA HOCHBERG**  
[Notary Seal]

# COMPUTER + SOFTWARE DISTRIBUTORS

<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
California Digital, Inc. Carson, CA	213 643-7440	213 644-7440
Renaissance Technology Corp. Concord, CA	Gary Salvador - VP, GM.	Gary Salvadori - VP, GM.
Waybern Corp. Garden Grove, CA	Raymond Carr - Material Control Mgr.	Raymonde Carr - Material Control Mgr.
Premier Source Distributing Laguna Hills, CA	Don Bledsoe - Sales Mgr.	Don Blodsoe - Sales Mgr.
Basic Systems, Inc. Inglewood, CA	Dave Ellis - Sales Mgr, Americal International Distributors. Michael Georgoff - Buyer, American International Distributors.	Both names should not have appeared.

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<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
American Computers & Engineers, Inc. Los Angeles, CA	Ramune Ambrozaidis - General Mktg.	Ramune Ambrozaitis - General Mktg.
Minicom Systems Los Angeles, CA	1626 Wilshire Blvd.	1636 Wilshire Blvd.
Digital Distributors Santa Cruz, CA	Santa Cruz 59060	Santa Cruz 95060
Softsmith Corporation Union City, CA	Rob Lundgran - VP, Sales, GM. LJG, Inc.	Rob Lungren - VP, Sales, GM. IJG, Inc.
IJG, Inc. Upland, CA	Jacksonville 32202	Jacksonville 32203
Cain & Bultman, Inc. Jacksonville, FL	321 228-8550	321 226-8850
KNE Resources Elk Grove Village, IL	Art Herbstam - Marketing Mgr.	Art Herbstman - Marketing Mgr.
Kaltronics Distributing Inc. Northbrook, IL		

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<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
Diversified Micro-computer Products, Inc. Prospect Hts, IL	Harlan McDaniels - VP.	Harlan McDaniel - VP.
Price Electronics Corp. Glenview, IL	204 Carpenter, Wheeling, 60090	1813 Elmdale Ave Glenview, 60025
International Computer Group Merriam, KS	9170 W. 57th St.	9174 W. 57th St.
Interstate School Supply Co., Inc. Baton Rouge, LA	1835 River Rd. W. John Page - VP.	1835 River Rd. North John Pace - VP.
Eastern Software Distributors Baltimore, MD	Brook Connor - Buyer.	Brook Cumor - Buyer.
Management Information Systems Corp. Baltimore, MD	Antoinette Sohols - Mktg, Mgr.	Antoinette Sorolis - Mktg, Mgr.

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<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
Apex Resources, Inc. Brookline, MA	Bill Wirtha - GM.	Bill Wirta - GM.
Newmar Computer Supplies Lynnfield, MA	Robert Schermaehorn - Owner, President, Buyer	Robert Schermerhorn - Owner, President, Buyer
Draves & Barke Systems Eden Prairie, MN	Draves & Barke	Draves & Barke Systems
Prairie Associates, Inc. Minneapolis, MN	Prairie Associates, Inc.	Prairie Associates, Inc.
Woodbury Computer Associates, Inc. Paramus, NJ	Leonard Kwainetz - Treasurer	Leonard Kwatinetz - Treasurer.
Microwave Distributing Pompton Hills, NJ	Steve Schwcbel - Sales Mgr.	Steve Schwebel - Sales Mgr.
TNL Data Services, Inc. New York, NY	Yaus Rezuik - Software Mgr.	Yau Rezuik - Software Mgr.
Promark Peripherals Ronkonkoma, NY	Romkonkoma	Ronkonkoma

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<u>Company Name City, State</u>	<u>As Appears In 1984 Edition</u>	<u>Correct Information</u>
CSI Distributors Spring Valley, NY	Elaine Toltelman - VP.	Helaine Toltelman - VP.
Scheweber Electronics Westbury, NY	Dave Marrow - ExVP, Sales.	Dave Morrow - ExVP, Sales.
Scherer's Dubline, OH	Scherer's	Scherer's Place

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This is to certify that the above list contains planted errors in the 1984 Directory of Computer + Software Retailers by Business Guides, Inc.

DATE: 9 November 1984  
TITLE: Editor-New Property Development  
NAME: Victoria M.K. Burdick  
SIGNATURE: /s/ Victoria M.K. Burdick

11/9/84

Sworn to and attested by

/s/ Barbara Hochberg  
**BARBARA HOCHBERG**  
[Notary Seal]

# COMPUTER + SOFTWARE RETAILERS

<u>Company Name City, State</u>	<u>As Appears In 1985 Edition</u>	<u>Correct Information</u>
Business & Home Computers Anaheim, CA	Anaheim	Anaheim
Loha Computers Anaheim, CA	Anaheim	Anaheim
CPU Business Systems, Inc. Cucamonga, CA	9155 Archibald, Suite 4	9155 Archibald, Suite H
Pathfinder Business & Computer Centre, Ltd. Encino, CA	David Silves	David Silver
WEI Computer Central Eureka, CA	WEI Computer Central	WCI Computer Central
Hundley Company Glendale, CA	Jeff Fairbank	Fred Wong
Gateway Computer Center Huntington Beach, CA	Gateway Computer Center	Gateway Computer Systems

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<u>Company Name City, State</u>	<u>As Appears In 1985 Edition</u>	<u>Correct Information</u>
The Computer Store of Oakland Oakland, CA	Alex Stern Poulsen Frank Scudero	Alfred Hawkins Alfred Johnson
Software and More Orange, CA	Jill Dervado	Dan Schaaf
Filco Computer Center Sacramento, CA	Schair Kaczmarek	Sohair Kaczmarek
Ecom West Sacramento, CA	Mike Bolma Jerry Liquori	Mike Balma Jerry Liguori
Businessland San Jose, CA	Roy Bryant	Roy Brant
CompuShack San Ramon San Ramon, CA	Shadrah Shah	Shadrad Shah
Agernal Corp. Torrance, CA	20695 South Western Ave., Ste. 124	Suite 128
Computerland Torrance, CA	Linda Wuestmar	Linda Wuestman

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<u>Company Name City, State</u>	<u>As Appears In 1985 Edition</u>	<u>Correct Information</u>
Software Galeria Tustin, CA	The Software Service Center	Software Galeria
Computer Expo, Inc. Westwood Village, CA	1019 Galey Rd.	1019 Gayley Rd.
Bright Ideas Creative Computer Center [illegible location]	Mary Ann Morrow	Mary Ann Morro
Digital Dimensions Vernon, CT	375 Hartford Tpke. 203 872-8569 Andrea Olesnevich	216 Hartford Tpke. 203 646-4291 Andrea Tomko
Computerease, Inc. Wallingford, CT	Doug Langois	Doug Langlois
Computer Resources Weathersfield, CT	Weathersfield	Weathersfield
ASCII Group, Inc. Washington, DC	May Nadaff	May Naddaf

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<u>Company Name City, State</u>	<u>As Appears In 1985 Edition</u>	<u>Correct Information</u>
The Computer Store of South Florida, Inc. Boca Raton, FL	Edward Green	Edward Greene
Inacomp Computer Center Fort Lauderdale, FL	Laurence E. White	Lawrence E. White
Computer System Resource Gainesville, FL	Brian Levine	Hal Merchant
Computer Design, Inc. Hollywood, FL	Ysioro J. Fernandez	Ysidro J. Fernandez
Micro Works Naples, FL	Carl Hanover	John King
Entre North Miami, FL	Alan Grose	John Harvey
International Calculator & Computer Orlando, FL	2914 Lorraine Drive	2914 Clorrine Drive
Data Base Plantation, FL	Eric Josocwitz	Rob Yorke

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<u>Company Name City, State</u>	<u>As Appears In 1985 Edition</u>	<u>Correct Information</u>
The Computer Chip Sarasota, FL	Doug Reddy	Matt Leona
Instant Software Acton, MA	Richard Tubman Peggy Burns	Wayne Greene Charles Ledahm
Execon Burlington, MA	68 Middlesex Turnpike Burlington, MA 01813 617 229-6666	677 Worcester Rd. Natick, MA 01760 617 655-9222
Ferranti-Dege, Inc. Cambridge, MA	1300 Massachusett Ave.	1300 Massachusetts Ave.
Computerland	Steve Watson	Jeff Gilbert
Micro-Macro Systems, Inc. New York, NY	Robert Levey	Robert Levy
Software Solutions New York, NY	Nathan Schartz	Nathan Schwartz
Leon's Computer Mart Rochester, NY	14608	14604
Video Computer Center Rome, NY	Mark Daily	Jim Smith

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<u>Company Name City, State</u>	<u>As Appears In 1985 Edition</u>	<u>Correct Information</u>
Computer Headquarters Selden, NY	1215 Middle Country Rd.	1245 Middle Country Rd.
William Tell Systems, Inc. Houston, TX	Steve Krztschak	Steve Kretshek
World of Computers Houston, TX	8282 Bellaire Blvd., Ste. 159	Ste. 154
Pan American Electronics Missouri, TX	Missouri	Mission
Computerland Richardson, TX	88 S. Greenville St., Ste. 303	888 S. Greenville St., Ste. 303
Computerland Wichita Falls, TX	Ron Schroegg	Ron Schrogs
Krongold's Computer Center, 12 Littlejohn Rd. Telephone: Unpublished Product Lines: Computer Supl; Modems; Monitors; Printers; Software (Business); Software (Educational); Software (Entertainment); Software (Game); Software (Personal); Software (Systems); Storage Devices; System Units Computer Models: Commodore VIC-20; IBM PC, PC-XT Sales: \$1,750,000 (1984 Estimated)		Englishtown 1 07726

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% Sales: 70 (hardware); 30 (software)  
 Number Of Stores: 1  
 Projected # Stores: 1 (3/86)  
 Private Label: Software, Supplies, Accessories  
 Services: Repair/Educational/On-Site Training  
 Year Founded: 1981  
 L. KRONGOLD - President, General Buyer.

Rossini's Computer Room, 87-32 253rd St.  
 Telephone: Unpublished  
 Product Lines: Computer Supl; Modems; Monitors; Printers; Software (Business);  
 Software (Educational); Software (Entertainment); Software (Game); Software  
 (Personal); Software (Systems); Storage Devices; System Units  
 Computer Models: Commodore 64; IBM PC, PC-XT  
 Sales: \$2,600,000 (1984 Estimated)  
 % Sales: 75 (hardware); 25 (software)  
 % Of Business: 60% Walk-in; 40% Outside Sales  
 Number Of Stores: 3  
 Projected # Stores: 3 (3/86)  
 Private Label: Software, Supplies  
 Services: Repair/Educational/Hot-Line/On-Site Training  
 Year Founded: 1981  
 R. ROSSINI - President, General Buyer.

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Edward's Computer Room, 1414 Willow St.

Western Spring 1  
90558

Telephone: Unpublished

Product Lines: Computer Acc; Computer Supl; Modems; Monitors; Printers;  
Software (Business); Software (Educational); Software (Entertainment); Software  
(Personal); Software (Systems); Storage Devices; System Units  
Computer Models: Commodore 64; IBM PC, PC-XT

Sales: \$1,000,000 (1984 Estimated)

Number Of Stores: 1

Services: Repair/Educational

Year Founded: 1984

R. EDWARDS - President, GM, General Buyer.

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This is to certify that the above list contains planted errors in the 1985 Directory of  
Computer + Software Retailers published by Business Guides, Inc.

Date: 30 May 85

TITLE: Senior Editor - New Property Development NAME: Victoria M.K. Burdick  
dick SIGNATURE: /s/ Victoria M.K. Bur-

Sworn before me this

[illegible]

/s/ Grace D'Antoni

[Notary Seal]

1986 Computer Directory: Planted Errors

- 1- Protecto Enterprises - Dianna PARAMSKY for Paramski (Barrington, Ill.)
- 2- Computerland (Honolulu, Hawaii) - Betty BELLANGER for Belanger.
- 3- Preferred Systems (Gainesville, GA) - Don DELANEY for Delany
- 4- Discount Computer Supplies (Atlanta, GA) - Tim DUGAN for Dugan
- 5- MicroAge Computer Store (West Palm Beach, FL) - Cindy DUDDWICK for Dudwick
- 6- Computer Center of Panama City (Panama City, FL) - Mardre CHAMBLISS for Chamb-  
less
- 7- Entre Computer Center (Lakeland, FL) - Brian EVERHARDT for Everhart
- 8- World Central Computers (Richmond, Ind.) - Richard RANKEN for Rankin
- 9- Software City, (Davenport, Iowa) - KIMBERLEY Road for Kimberly
- 10- Midwest Computer Assocs (Lenexa, Kansas) - Hank DAMME for Damm
- 11- Commonwealth Computers (Overland Park, Kansas) - David FRANKLYN for Franklin
- 12- Computer Market (Bowling Green, Kentucky) - Marion SIMONS for Simmons
- 13- Compco Computer Center (Shreveport, LA) - Al YANTES for Yantis
- 14- Valcom Computer Center (Portland, Maine) - Forrest Avenue for Forest

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- 15- The Microcomputer Center Inc. (Baltimore, MD) - Belaire Road for Belair
- 16- Computerland (Rockville, MD) - Gary FREDERIC for Frederick
- 17- Astrolabe (Orleans, Mass.) - Gary CHRISTIN for Christen
- 18- Computer Marketplace (Tewksbury, Mass.) - Joseph L. CLARK for Clarke
- 19- Computer Connection (Farmington Hills, Mich) - Thomas TAILOR for Taylor
- 20- Computronix Corporation (Midland, Mich) - Earl MCRRISS for Morris
- 21- Micro Station Inc. (Southfield, Mich) - Jerry GOLDBURG for Goldberg
- 22- Rite Way Enterprises (Warren, Mich.) - Ronald KEELER for Keiler
- 23- Computer Professionals (Burnsville, Minn.) - Mike MACGRAW for McGraw
- 24- Computer Mart (Springfield, Missouri) - Milton RHOADES for Rhoads
- 25- Ashford Computer Center (Saint Louis, Missouri) - Craig TETLY for Tetley
- 26- Emery Computers (Great Falls, Montana) - Ken DA COSTA for De Costa
- 27- Alpha-Omega Computer Co. (Aliquipoa, Penn.) - Mike PASTERICK for Pasterik
- 28- Future Systems Inc. (Charleston, SC) - Janice HARTE for Hart
- 29- Computerland (Rapid City, SD) - Dave MEYERS for Meyer

- 30- E.C.S. Business Systems (Oak Ridge, TN) - Jack MACCOMBER for Macomber
- 31- Computerland (Amarillo, TX) - Mark TROWEBRIDGE for Trowbridge
- 32- United Business Machines Inc. (Houston, TX) - E. Ali KAMALL for Kamal
- 33- FNS Computer Service Inc. (Texarkana, TX) - Bill SCHRAEDER for Schrader
- 34- Chaney Computer Assocs. (Grafton, VA) - Perk CRAINE for Crain.
- 35- Virginia Micro Systems Inc. (Woodbridge, VA) - Russ THOMSON for Thompson.
- 36- Computers & Applications (Bellevue, WA) - David CHOY for Choi
- 37- Empire Electronics (Seattle, WA) - Thomas GEERE for Geer
- 38- The Computer Corner, Inc. (Morgantown, WV) - Bill DODRILL for Dodrill
- 39- MicroAge Computer Store (Lacrosse, Wisc.) - John SARNOWSKY for Sarnowski
- 40- Alpine Computer Products (Casper, WY) - S. CARLY for Carley

PLANTED COMPANIES:

- |  |   |
|--|---|
| 1- Horizons Inc.<br>87-32 253rd Street<br>Bellerose, N.Y.<br>(In Book)                                   | 2- Edward's Computer Center<br>1414 Willow Street<br>Western Springs, IL 60558<br>(In Book)         |
| 3- Donoghue's Computer Emporium<br>606 North Larchmont Blvd.<br>Los Angeles, CA 90004<br>(Not Published) | 4- Mitchell's Computer Village<br>444 North Michigan Avenue<br>Chicago, IL 60611<br>(Not Published) |

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This is to certify that the above are planted errors in the 1986 Directory of Computer & Software Retailers, published by Business Guides, Inc., 425 Park Ave., NYC

Date: 5/21/86

Title: EDITOR

Sworn before me this  
1st day of May 1986.

/s/ Grace D'Antoni

[Notary Seal]

Name: John Leavy  
Signature: /s/ John Leavy

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(Exhibits C, E, F, H, I and J  
and Certificate of Service  
Omitted in Printing)

---

STEPHEN V. BOMSE  
 STEPHEN N. GOLDBERG  
 JOSHUA R. FLOUM  
 HELLER, EHRMAN, WHITE & McAULIFFE  
 333 BUSH STREET  
 SAN FRANCISCO, CALIFORNIA 94104  
 (415) 772-6000

Attorneys for Plaintiff,  
 BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
 NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	No. C866164 SC
	)	
Plaintiff,	)	DECLARATION
	)	OF VICTORIA
v.	)	M.K. BURDICK
	)	
CHROMATIC	)	FILED
COMMUNICATIONS	)	APR 27 1987
ENTERPRISES, INC. and	)	
MICHAEL SHIPP,	)	
	)	
Defendants.	)	

I, VICTORIA M. K. BURDICK, DECLARE AS FOLLOWS:

1. The following declaration is based on my personal knowledge. If called upon to testify, I could testify competently as to the matters set forth herein.

2. I am a Sales Representative at Mail Marketing Resources, which is a division of Business Guides, Inc., plaintiff herein. My job is to help promote sales of Business Guides' products through contacts with possible buyers. Prior to that I was an editor with Business Guides responsible for publication of the Directory of Computer

+ Software Retailers. I have submitted two affidavits to the Court in connection with plaintiff's application for a temporary restraining order ("TRO") in the above-entitled matter. In addition, I testified before Chief Magistrate Woelflen on January 29, 1987, in connection with the Court's inquiry regarding sealed affidavits submitted to the Court in support of plaintiff's application for a TRO. Because I believe that important facts regarding Business Guides' "seeds" either have not been fully presented or have been misunderstood, I respectfully submit this additional affidavit.

3. Business Guides publishes 18 directories for use by businesses to identify markets and as a reference to companies who do business in a particular area of commerce. Business Guides has over 30 major competitors who publish similar directories. The only practical way to tell whether competitors have copied Business Guides' publications is to use seeds, i.e., entries which contain incorrect information, in our publications. If these seeds appear in a competitor's directory, Business Guides believes that it is likely that the competitor copied Business Guides' directory.

4. Seeds are commonly used in the publishing industry to detect unauthorized copying. Business Guides uses seeds in each of its publications. Normally, the seeds are thought out ahead of time, and intentionally placed in Business Guides' directories. The person who is responsible for devising the seeds prepares a "master seed list" which lists the seeds used. The policy at Business Guides is for the person who prepared the seed list to sign and certify the list before a notary public in case

the authenticity of the seed list in questioned. My understanding is that the seed lists are prepared in this matter in case of the need to litigate against a defendant who has copied Business Guides' materials without authorization. I am aware that the fact that seeds appeared in a competitor's publication has been used by Business Guides in previous cases as evidence of copyright infringement. I am informed that this was the case in *Chain Store Business Guide v. Wexler*, 79 F. Supp. 726 (S.D.N.Y. 1948). Recently, I prepared and executed my affidavit in preparation for a case against R.R. Bowker, then a division of Xerox Corporation. In that case the evidence of infringement was based upon seed lists in our files.

5. Before November, 1985 when I moved to Sales, my job was to research possible listings in Business Guides' directories. I did this by making telephone calls to possible listings, as well as reviewing questionnaires sent to the companies regarding details of the companies' businesses. These questionnaires, prepared by Michael Lambe, are sent each year to companies listed in our directories. The questionnaires typically list information about the companies which we gather the previous year. The questionnaires request that the company update or revise the information printed. Sometimes, the companies fill out the questionnaires and send them back to us. Other times, staff we hire to conduct telephone interviews will call the companies to gather the information requested on the questionnaires. "Telephone supervisors" sometimes will double check information obtained by the telephone staff. Editors of the directories also may call businesses to request information.

6. Of the ten seeded entries in plaintiff's directories which Business Guides originally believed defendants had copied without authorization, seven derived from the "master seed list" for the 1984 Directory of Computer + Software Retailers, which was personally prepared and certified by me. Every one of the six seeded entries which Chief Magistrate Woelflen criticized in his April 3, 1987 Report and Recommendation came from the 1984 master seed list.

7. I believe that the facts surrounding my preparation of the 1984 master seed lists will help to clear up many of the questions raised by the Chief Magistrate. The 1984 master seed list was prepared differently from any other master seed list of Business Guides with which I am familiar. I did not explain the significance of the preparation of the 1984 master seed list to the Chief Magistrate because I was not asked a question by counsel or by the Court to which an explanation would be responsive. In addition, I have recently realized the significance of the manner in which the 1984 master seed list was prepared during investigative discussions with attorneys from Heller, Ehrman, White & McAuliffe regarding preparation of that list.

8. The 1984 master seed lists for "Computer + Software Retailers" and "Computer + Software Distributors" were prepared *after* Business Guides 1984 directory actually had been published. None of the "seeds" listed in the 1984 master seed lists were intentionally conceived as seeds, with the exception of the two type "A" (i.e., totally fictitious) company entries: "Davidson's Computer Center" and "NFR Computer Room". All of the remaining 1984 type "B" (i.e. only certain information incorrect)

seeds were listings of what I believed to be typographical or editorial errors in the 1984 directory.

9. Business Guides' 1984 Directory of Computer and Software Retailers was published in April, 1984. A true and correct copy of the cover, title page and page showing the printing date as "April 1984" from the 1984 Directory is attached hereto as Exhibit "A". The 1984 master seed lists, true and correct copies of which are attached hereto as Exhibit "B" were prepared in November 1984. I prepared the 1984 master seed lists in November, 1984 under a great deal of time constraint, as the directory already had been in print for several months, and our publisher at the time, Lee Appel, wanted to document additional type B seeds immediately.

10. Mr. Appel directed me to create the 1984 seed list by comparing the filled-out questionnaires Business Guides used to solicit information regarding companies listed in its directory with the 1984 directory *as already published* and to list as "seeds" any entry in the directory which was different from the information contained in the questionnaires. I did this without supervision at Business Guides and, to my knowledge, without advice of counsel. In hindsight, if the 1984 master seed lists had been prepared in the usual manner, certain entries should not have been listed as seeds. However, I assumed at the time that the information set forth on the questionnaires was correct, even though such questionnaires were prepared by individuals other than myself.

#### EAGLE MICRO SYSTEMS

11. The entry in the 1984 questionnaire received from Eagle Micro Systems, Inc., listed that company as

being located on Gay Street, Auburn, Alabama, 36830. A true and correct copy of that questionnaire is attached hereto as Exhibit "C". The zip code for Eagle [36830] was erroneously typed as 63830 in plaintiff's 1984 directory. Therefore when I was creating the 1984 seed list, I found this discrepancy and I intended to list on the master seed list as "correct information" the zip code as it appeared on the questionnaire [36830]. However, as the court will note from Exhibit A, somehow the zip code 36850 erroneously was printed on the master seed listed as the "correct information." The zip code as it appeared in the 1984 published directory [63830] was listed as "seeded" information.

#### COMPUTERLAND

12. In Business Guides' 1983 directory, the address for Computerland was erroneously listed as 3845 Bay Road. A true and correct copy of a page from the 1983 directory showing the listing for Computerland is attached hereto as Exhibit "D". This 1983 information was printed on the 1984 questionnaire and sent to Computerland for revisions and updating in accordance with our standard procedure. However, as the seed list shows, I continued to believe the 3845 was the "correct" information. Apparently, Computerland failed to notice and change Business Guides' typographical error on the 1984 questionnaire. Somehow someone at Business Guides, probably the telephone supervisors, corrected the information in the 1984 Directory and listed the company's address as 3545 Bay Road. However, the information was not corrected on the 1984 questionnaire. Thus, following my instructions, I listed the 3545 address as incorrect or a

"seed," when in fact it was the correct address. Unfortunately, we are unable to locate the 1984 Computerland questionnaire after thorough and repeated searching.

#### COMPUTER DISCOUNT OF NEW JERSEY

13. I listed as a seed in the 1984 master lists Computer Discount of New Jersey, in West Milford, New Jersey. The name "Computer Discount of New Jersey" was given to Business Guides by Mike Andress of Computer Discount who stated that the company's *retail store* was called Computer Discount of New Jersey. Its mail-order business was called Computer Discount of America. A true and correct copy of the 1984 questionnaire for Computer Discount of New Jersey is attached hereto as Exhibit "E". That questionnaire shows that the company intended to be listed as Computer Discount of New Jersey for retail store directories.

14. When I compared the questionnaire to the 1984 directory in preparing the seed list, I saw a discrepancy between the store name on the questionnaire and the name printed in the Business Guides directory. I therefore included "Computer Discount of America" on the 1984 master seed list. If I had prepared the 1984 master seed list as Business Guides has prepared its other seed lists, i.e., *intentionally* creating seeds in advance rather than including typographical errors after the fact, I do not believe I would have used Computer Discount of America as a seed. However, because I merely checked discrepancies between the questionnaires and the directory, I included the entry as a seed.

15. Attached hereto as Exhibit "F" is the 1985 questionnaire filled out by Joseph Russo of Computer Discount of New Jersey. There, Mr. Russo crossed out the name of Computer Discount of America, and put the name "Computer Discount of New Jersey". He also crossed out the column which had stated "% Sales in Mail Order: 25" to "% Sales in Mail Order: 0". However, he listed his return address as:

JOSEPH RUSSO  
Computer Discount of America  
15 Marshall Hill Road  
West Milford, NJ 07480

This questionnaire shows that there were two separate companies formerly owned by Joseph Russo. One was a retail store, the other was a mail-order business. Defendant's directory listed the name of the mail-order company "Computer Discount of America," in its directory of computer stores.

16. I recently obtained and reviewed a pamphlet from Computer Discount of New Jersey showing, among other things, that the company refers to its retail store operation as "Computer Discount of New Jersey". This pamphlet is attached hereto as Exhibit "G".

17. With respect to the difference in addresses listed by defendant and plaintiff for Computer Discount of America and Computer Discount of New Jersey, I am informed and believe that the retail store and mail-order company do business at addresses next door from each other at the same shopping mall. As can be seen from Exhibit "E", Mr. Russo wrote a different street address for Computer Discount of New Jersey than had appeared for Computer Discount of America the previous year.

### PREMIER SOURCE

18. I included the name of the manager of Premier Source Distributing, Inc. as a seed in the 1984 master seed list. The 1984 Premier Source questionnaire had the last name of the manager spelled as "Blodsoe". A true and correct copy of the 1984 questionnaire is attached hereto as Exhibit "H". Business Guides' 1984 directory listed the name as "Bledsoe".

19. I understand that the Chief Magistrate doubted the legitimacy of the 1984 questionnaire for Premier Source. I am surprised and saddened that the Chief Magistrate would question our integrity to this degree. It is my firm belief that the document was filled out by someone at Premier Source. I say that for the following reasons: the document in question does not bear the initials of one of Business Guides' employees, as is our standard practice, further, the document bears a "received" stamp, not used by our company, in the upper right hand corner which appears to be dated October 28. Neither I, nor to my knowledge, anyone at Business Guides, has fabricated or invented or modified the questionnaire which exists in our files.

20. Subsequent questionnaires received from Premier Source indicated that the true spelling was "Bledsoe". Thus, Business Guides' 1985 edition lists the name as "Bledsoe". Indeed, the 1986 questionnaire was filled out by Mr. Bledsoe himself. That questionnaire, signed by Mr. Bledsoe on January 8, 1986, is attached hereto as Exhibit "I". The questionnaire bears a "received" stamp just as does Exhibit "H".

21. I have reviewed the Chief Magistrate's Report and Recommendation. I understand that the Magistrate stated in that Report:

[P]laintiff must first persuade us that Bledsoe's company incorrectly spelled his name on the questionnaire. More importantly however plaintiff must persuade us that it was merely coincidental that plaintiff *chose to alter, among thousands of listings* contained in the directory, first, this particular listing; second, this particular word in the listing; and third, this particular letter in the word, resulting in an alteration which turned out to be the true spelling of this man's name.

We note plaintiff has asked us to believe that another very similar coincidence occurred in seed number 2. We find the occurrence of two such similar and incredible coincidences difficult to believe.

I believe that the Chief Magistrate's incredulity results from the fact that it was not explained that the 1984 seed list was prepared by finding typographical or editorial errors in the 1984 directory. Business Guides did not "choose to alter" any of the letters or numbers which formed the basis of its 1984 type "B" seeds. *The way Business Guides prepared its 1984 seed list caused the Bledsoe/Blodsoe seed issue. No coincidence was involved.* Whenever telephone supervisors or editors learn of errors (or outdated information) on the questionnaires, they correct the information in the published directory. However, they must not necessarily correct the information on the questionnaires themselves. If this were the case, I would knowingly have listed the *correctly* edited information as an incorrect seed on the 1984 seed list.

### PRICE ELECTRONICS

22. I also included in the 1984 master seed list the business address of Price Electronics Corporation in Illinois. The 1984 questionnaire listed Price Electronics' *mailing* and business address as 1813 Elmdale Avenue, Glenview, Illinois 60025. The questionnaire also noted that Price Electronics was moving from 1813 Elmdale Avenue, Glenview, Illinois 60025 to 204 West Carpenter Avenue, Wheeling, Illinois 60090. A true and correct copy of the 1984 Price Electronics' questionnaire is attached hereto as Exhibit "J".

23. When I compared the already printed 1984 directory to the 1984 Price Electronics' questionnaire, I noticed that the address as printed in the directory (the future address) was other than the mailing address listed on the questionnaire. Following my instructions, I therefore included the address that Price Electronics was going to move to as a "seed."

### YES COMPUTER

24. Two of the three seeds which originally were included in the photocopied seeds attached to my sealed affidavit in the above-entitled matter, but subsequently removed from the list of seeds described in Michael Lambe's Sealed Supplemental Affidavit, also came from the 1984 master seed lists, and were the result of my finding what I believed to be typographical or editorial errors in the 1984 directory when I prepared the 1984 seed list in 1984. In the case of Yes Computer, the 1984 directory stated the company's address, in part, as follows: College Station, Texas 77840. The zip code on the

questionnaire was 77802. A true and correct copy of which is attached hereto as Exhibit "K". Because I found a discrepancy between the 1984 questionnaire and the 1984 directory as printed, I listed the printed zip code of 77840 as an incorrect seed. In fact, 77840 is the correct zip code for College Station, Texas.

### COAST COMPUTER CENTER

25. I also included in the master seed list for 1984 the name of the general manager for Coast Computer Center in Costa Mesa, California. The information on the 1984 questionnaire for Coast Computer which I reviewed listed the name Steve Purves. A true and correct copy of that 1984 questionnaire is attached hereto as Exhibit "L." However, the name which appeared in the 1984 Directory was Mike Seigrist, Jr. Therefore, because I found a discrepancy between the questionnaire and the Directory as printed, I listed the name Mike Seigrist, Jr. as an incorrect seed on the 1984 master seed list.

### SOFTWARE SERVICE CENTER

26. I included a company called "The Software Service Center" as a seed in the 1985 master seed list. I prepared the 1985 master seed list prior to publication of Business Guides' 1985 directory but based the seed list on discrepancies between the proof pages for the publication and the 1985 questionnaire. I understand that all of the seed lists for Business Guides' publications were prepared the usual way, i.e. intentionally creating seeds *before* entering data into the word processing system. I did it this way in 1985, because I had done it the same

way in 1984. Nobody supervised me in preparing the master seed lists. 1985 was the last year I prepared the master seed lists. John Leavy prepared the master seed list for the 1986 Directory of Computer + Software Retailers. My understanding is that he prepared that seed list ahead of time by intentionally altering names of individuals in listed companies.

27. The seeded, i.e. incorrect name of the company was intended to be "Software Galeria". Unfortunately, I transposed the fictitious and real name in my handwritten draft of the 1985 seed list, so that the correct name appears on the seed column, while the incorrect name appears on the "correct information" column. My handwritten notes from 1985 evidencing the unintended transposition are attached hereto as Exhibit "M". I am informed that when Mr. Lambe discovered this mistake, he withdrew the listing for "The Software Service Center" as one of the seeds upon which plaintiff based its application for a temporary restraining order.

29. Other than noticing that defendant had copied Business Guides' totally fictitious seed, NFR computer room in its 1985 Directory, I did not participate in identifying for Business Guides' attorneys specific seeds which Business Guides Believed plaintiffs had copied until after Judge Conti had ruled on plaintiff's application for a TRO, although I did review the seeds list once it had been compiled.

30. My understanding is that Michael Lambe, Richard Rossini and Gerard Loesch were the people at Business Guides who compared defendant's directories and diskettes to Business Guides' master seed list for the

years 1984, 1985 and 1986 in an effort to identify seeds which Business Guides believed defendant had copied. It was only after Judge Conti acted on the TRO that I became involved in examining the 1984 master seed list as described above.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 25 day of April, 1987, at New York, New York.

/s/ Victoria M. K. Burdick  
Victoria M. K. Burdick

(All Exhibits and Certificate of Service  
Omitted in Printing)

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STEPHEN V. BOMSE  
 STEPHEN N. GOLDBERG  
 JOSHUA R. FLOUM  
 HELLER, EHRMAN, WHITE & McAULIFFE  
 333 BUSH STREET  
 SAN FRANCISCO, CALIFORNIA 94104  
 Telephone: (415) 772-6000

Attorneys for Plaintiff,  
 BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
 NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	No. C866164 SC
	)	
Plaintiff,	)	DECLARATION
	)	OF RICHARD
v.	)	J. ROSSINI
	)	
CHROMATIC	)	FILED
COMMUNICATIONS	)	APR 27 1987
ENTERPRISES, INC. and	)	
MICHAEL SHIPP,	)	
	)	
Defendants.	)	

I, RICHARD J. ROSSINI, DECLARE AS FOLLOWS:

1. This declaration is based on my personal knowledge. If called upon to testify, I could testify competently as to the matters set forth herein.

2. I am employed by Business Guides, Inc., plaintiff in the above-entitled action as Director of Research Operations. Attached hereto as Exhibit "A" are true and correct copies of my forms W-2 and W-4, evidencing my employment with plaintiff.

3. One of the means by which Business Guides attempts to prevent unauthorized copying or use of its business directories is to plant "seeds," i.e., business listings with incorrect information, in its directories. During the course of my employment, I participated in the preparation of what Business Guides refers to as type "A" seeds. By this we mean seeds which are totally fictitious companies, invented by Business Guides. I agreed to use my name, and in certain cases names of members of my family, as well as my home address to assist in preparation of the type A seeds. Type A seeded companies, using my name and/or address, have been placed from time to time in several directories published by Business Guides, Inc.

4. One such fictitious seed was listed in Business Guide's 1986 Directory of Value Added Resellers:

Richard Rossini  
 THE ANSWER MAN  
 87-32 253rd Street  
 Bellerose, New York 11426

A true and correct copy of the 1986 Directory of Value Added Sellers showing that seeded entry is attached hereto as Exhibit "B".

5. I am unaware of any company which does business by the name of "THE ANSWER MAN" in Bellerose, New York. It is impossible that any company does business at 87-32 253rd Street, Bellerose, New York 11426, because that is my home address. True and correct copies of my driver's license, New York City Property Assessment Form (listing the City of Jamaica rather than the village in Jamaica named Bellerose) and Homeowner's Insurance statement for 1986-1987 evidencing that I own

a residence at 87-32 253rd Street, Bellerose, New York, are attached hereto as Exhibit "C".

6. Mr. Michael J. Shipp, publisher of defendant Chromatic Communications' "THE PERSONAL COMPUTER - AN INDUSTRY SOURCE BOOK" has, on several occasions, sent letters to me at my home address in care of the fictitious company "THE ANSWER MAN." A letter dated October 24, 1986 from Mr. Shipp sent to me care of "THE ANSWER MAN" is attached hereto as Exhibit "D". A promotional letter dated December 8, 1986 from Mr. Shipp sent to me in care of "THE ANSWER MAN" is attached hereto as Exhibit "E". I believe there is no conceivable way Mr. Shipp could have learned the fictitious name and address for "THE ANSWER MAN" other than by having taken the seeded name in Business Guides' 1986 Directory of Value Added Resellers.

7. Another seeded entry which appeared in Business Guides' 1984 edition of Computer and Software Retailers under the section New York, 1146, was listed as follows:

NFR Computer Room, 87-32 253rd Street. Bellerose  
Telephone Unpublished  
Product Lines: Modems; Monitors; Printers;  
Software (Business); Software (Educational);  
Software (Entertainment); Software (Game);  
Software (Personal); Software (Systems); Storage  
Devices; Supl. System Units

Computer Models: Commodore VIC-20  
Sales: \$2,600,000 (1983 Estimated)  
% Sales: 75 (hardware), 25 (software)  
Number of Stores: 3  
Projected # Stores: 3 (1/85)

Private Label: Software, Supplies  
Services: Repair/Educational/Hot-Line/  
On-Site  
Training  
Year Founded: 1981  
NICK ROSSINI-President, Buyer

True and correct copies of the page from Business Guides' 1984 master seed list certified by Victoria M.K. Burdick before a notary public, and the page from Business Guide's 1984 directory, both showing the seeded entry, are attached hereto as Exhibits "F" and "G", respectively.

8. NFR Computer Room is a totally fictitious name, chosen by Business Guides. "NFR" actually are the initials of my daughter, Nicole Favat Rossini. Further, the name "Nick Rossini" listed in plaintiff's seed and defendants' directory as being the "President" of "NFR Computer Room," is also a variation on my daughter's name. True and correct copies of my daughter's birth and baptismal certificates, evidencing her name, are attached hereto as Exhibit "H".

9. I am aware of no company doing business as "NFR Computer Room" in Bellerose, New York. It is impossible for any company to be doing business at 87-32 253rd Street, Bellerose, New York, as this is my home address, as previously described. No telephone number is listed on the seed to avoid receiving telephone calls at my house.

10. Defendant copied this seeded entry almost verbatim in its 1985 edition of THE PERSONAL COMPUTER - AN INDUSTRY SOURCE BOOK. A true and correct copy of a page from that publication showing the "NFR Computer Room" entry is attached hereto as Exhibit "I".

11. I believe that the fact that defendant copied an entirely fictitious entry in Business Guides' directory alone is substantial evidence that defendant infringed plaintiff's copyrighted directory. Indeed, I can think of no other explanation for the fact that the entirely fictitious entry appears in defendant's 1985 directory.

12. Another seeded entry which appears in Business Guides' 1985 edition of Directory of Computer + Software Retailers under the section New York, 1146, is listed as follows:

Rossini's Computer Room, 87-32 253rd St. Bellerose  
 Telephone: Unpublished  
 Product Lines: Computer Supply;  
 Modems; Monitors;  
 Printers; Software (Business); Software  
 (Educational); Software (Entertainment); Soft-  
 ware  
 (Game); Software (Personal); Software (Systems);  
 Storage Devices; System Units  
 Computer Models: Commodore 64;  
 IBM PC, PC-XT  
 Sales: \$2,600,000 (1984 Estimated)  
 % Sales: 75 (hardware), 25 (software)  
 % of Business: 60% walk-in; 40% outside  
 sales  
 Number of Stores: 3  
 Projected # Stores: 3 (3/86)  
 Private Label: Software, Supplies  
 Services: Repair/Educational/Hot-Line/On-Site  
 Training  
 Year Founded: 1981  
 R.ROSSINI-President, General Buyer

A true and correct copy of Business Guides' 1985 master seed list for its "1985 Directory of Computer and Software Retailers" certified by Victoria M.K. Burdick before

a notary public showing the seeded entry is attached hereto as Exhibit "J".

13. I received a promotional letter dated December 11, 1986 from Michael Shipp addressed to "Nick Rossini" in care of "Rossini's Computer Room." The December 11, 1986 letter is attached hereto as Exhibit "K".

14. I recently reviewed defendant's 1987 edition of "THE PERSONAL COMPUTER - AN INDUSTRY SOURCE BOOK." There, defendant listed under a section entitled "Franchisors & Chains" the seeded company "Rossini's Computer Room." Defendant listed "Rossini's" President as "Nick Rossini", and its business address as 87-32 253rd Street, Bellerose, New York 11426. A true and correct copy of the cover, copyright page, table of contents, section heading, and page with the seeded "Rossini's" entry from defendant's 1987 edition is attached hereto as Exhibit "L".

15. I can think of no explanation for the fact that the seeded entry appears in defendant's 1987 edition other than that defendant copied plaintiff's 1985 seeded entry. I believed that this alone is substantial evidence of unauthorized copying and use of plaintiff's business directories. Together with the other evidence described above, I believe the fact that defendant copied portions of plaintiff's business directories practically is irrefutable.

16. I am aware of no company doing business as Rossini's in Bellerose, New York, as previously described. No company does business at 87-32 253rd Street, Bellerose, New York, as this is my home address. "Nick Rossini" listed as the president of "Rossini's Computer

Room" in defendant's directory in fact is a variation of my daughter's name.

17. I understand that Chief Magistrate Woelflen raised questions in his Report and Recommendation dated April 3, 1987 concerning the veracity of plaintiff's representations concerning, among other things, the "NFR Computer Room" seed. I am prepared to testify before the Chief Magistrate or the Court with respect to these matters in an effort to demonstrate plaintiff's good-faith belief that defendant had infringed its copyrights.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 25 day of April, 1987, at New York, New York.

/s/ Richard J. Rossini  
Richard J. Rossini

(All Exhibits and Certificate of Service  
Omitted in Printing)

STEPHEN V. BOMSE  
STEPHEN N. GOLDBERG  
JOSHUA R. FLOUM  
HELLER, EHRMAN, WHITE & McAULIFFE  
333 BUSH STREET  
SAN FRANCISCO, CALIFORNIA 94104  
(415) 772-6000

Attorneys for Plaintiff,  
BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.,	)	No. C866164 SC
Plaintiff,	)	DECLARATION
	)	OF MICHAEL
v.	)	LAMBE
CHROMATIC	)	FILED
COMMUNICATIONS	)	APR 27 1987
ENTERPRISES, INC. and	)	
MICHAEL SHIPP,	)	
Defendants.	)	

I, MICHAEL LAMBE, DECLARE AS FOLLOWS:

1. The following declaration is based on my personal knowledge. If called upon to testify, I could testify competently as to the matters set forth herein.

2. I am the Director of Research at Business Guides, Inc., plaintiff herein. My job responsibilities include overseeing research of the business listings appearing in Business Guides' 18 Business directories. I previously have submitted two affidavits to the Court in connection with plaintiff's application for a temporary restraining order ("TRO") in the above-entitled matter. In

addition, I submitted a third affidavit to Chief Magistrate Woelflen to explain that there is a retail store called "Computer Discount of New Jersey" doing business in West Milford, New Jersey. Unfortunately, I was unable to attend the January 29, 1987 hearing before the Chief Magistrate because of the death of my uncle in Europe. I had to go to Europe both to attend his funeral, and to take care of matters regarding his estate. Because I believe that important facts regarding Business Guides' "seeds" either have not been fully presented or have been misunderstood, I respectfully submit this additional declaration.

3. Business Guides is a subsidiary of Lebhar-Friedman, Inc. Lebhar-Friedman was found in 1925 and is an established publisher of retail trade publications, both magazines and journals. These publications are subscribed to by over 500,000 business people annually. Lebhar-Friedman publishes eight trade journals, all pre-eminent in their fields. Business Guides published 18 directories covering 35 major retail and wholesale industries. Business Guides' entire data base also is available on electronic media. For example, Business Guides' Directory of Computers + Software Retailers provides a nationwide list of companies and individuals who sell computers and/or software equipment. This directory is extremely useful to companies and individuals in that business so that they may be able to identify their potential market, competitors and prospective customers.

4. Research for the directories is conducted through telephone interviews with prospective listings, and via questionnaires sent to the companies to solicit information. I formulated and drafted the questionnaires

which Business Guides sends to its prospective listings. Typically, I signed the questionnaires and supervised the cataloging of information listed on the returned questionnaires.

5. Business Guides' research procedure is that, when a questionnaire has not been returned within a certain period of time, one of our telephone staff calls the prospective listing to solicit the information requested in the questionnaire. When the telephone staff has done this, he or she writes his or her initials on the questionnaire to show that the information was received by telephone, rather than filled out by a representative of the company. Business Guides also employs "telephone supervisors" who double check certain of the telephone interviews conducted by approximately 35 temporary telephone staff. For example, a telephone supervisor may double check 20% of the telephone calls made by a new person on the telephone staff. A telephone supervisor may only double check 5 or 10% of the telephone calls made by a more experienced member of the telephone staff.

6. During the relevant time period, before 1986, Business Guides used an outside computer supplier in Princeton, New Jersey, Sedgwick Print Out Systems, Inc. The information received on questionnaires and by telephone staff was stored electronically at Sedgwick. Sedgwick would produce questionnaires from the information it electronically stored in Business Guides' data base. The questionnaires were sent to Business Guides, and then sent out to listings through Business Guides' mailroom. When information is received by Business Guides on the questionnaires, and Business Guides' editors would edit the printouts previously received from Sedgwick, and

send the edited version to Sedgwick. Sedgwick's operators then would key punch the edited information onto the data base in "fields." For example, changes in address, telephone number, or name of company would be edited by entering the information in the appropriate field. Thus, the new information would be merged with the "master tape." Sedgwick would then produce a new set of printouts, along with "control lists" which are also organized in fields. Approximately 9 editors at Business Guides then would proofread the printouts, and return them to Sedgwick, for additional key punching if necessary. Sedgwick operators then would electronically update the master file and produce camera ready repro pages. After receiving the repro pages from Sedgwick, Business Guides would send the repro pages to Port City Press in Baltimore, Maryland. There, the repro pages are photographed, plates made and pages printed for the final bound directory.

7. Employees at Business Guides then input the data received from the questionnaires onto a word processing system to be printed, first on proof sheets and then in a final published directory. During this process, editors proofread and check business entries for accuracy and, occasionally, telephone prospective listings to gather further information where the editor believes that the information on the questionnaire is, for some reason, not sufficient. Because telephone supervisors and/or editors may amend or revise information during the proofing and printing stages, and because of possible keypunch error, information which appears on the questionnaires occasionally will be different from information which appears in the finally published directory. As set forth in

the accompanying declaration of Victoria M. K. Burdick, the 1984 master seed lists for Business Guides' Directory of Computers + Software Retailers consists for the most part of discrepancies between the questionnaires and the already printed 1984 Directory.

8. It is important to understand the investigations done by Business Guides' Research Department under my direction both before and after the hearing on the TRO. Business Guides first become aware that defendants likely were copying its "Directory of Computer + Software Retailers" when Victoria Burdick, then working for me in the Research Department, found an entirely fictitious seed, "NFR Computer Room", in defendants' 1985 edition of "THE PERSONAL COMPUTER - AN INDUSTRY SOURCE BOOK." However, because defendants were perceived to be a minor competitor at the time, Business Guides did not follow up on this discovery.

9. When defendants published a diskette entitled "MICROLEADS" in 1986, Business Guides decided to investigate whether defendants had continued to copy our seeds. Victoria White, Associate Director of Mail Marketing Research, had a printout prepared of defendants' diskette. The first stage of the Research Department's investigation was to determine if Business Guides' planted seeds appeared on defendants' diskette.

10. In October, 1986, I asked Gerard Loesch to compare the printout of defendants' diskette with Business Guides' master seed lists for Directory of Computer + Software Retailers for the years 1984, 1985 and 1986. Mr. Loesch found instances of five companies which appeared on the seed lists and on defendants' diskette:

Coast Computer Center, Computerland, Yes Computer, Software Galeria and Computers & Applications. I instructed Mr. Loesch to prepare a list of those companies to give to Victoria White. My understanding is that Ms. White forwarded this list of Lisa Margolis of the Finley, Kumble law firm on or about October 24, 1986.

11. I, along with Richard J. Rossini, a Business Guides employee, then personally compared the 1984, 1985 and 1986 Master Seed Lists with defendants' 1985 edition of THE DIRECTORY OF MICROCOMPUTER RETAILERS and defendants' 1985 edition of THE PERSONAL COMPUTER - AN INDUSTRY SOURCEBOOK. We found four additional instances where companies listed as seeds in our 1984 master seed lists appeared in defendants' publications: Price Electronics Corp., Computer Discount of New Jersey, Premier Source Distributing, Inc. and Eagle Microsystems.

12. At the request of Lisa Margolis, I photocopied the pages from Business Guides' Directory which contained the entries listed as seeds on the master seed lists. I also photocopied pages from defendants' publications which contained information listed as seeded on the master seed lists. I drew boxes around those entries, and forwarded the photocopies to Lisa Margolis.

13. At the time I photocopied the seeded entries and sent them to counsel, I relied on the accuracy of the master seed lists. (The master seed lists for THE DIRECTORY OF COMPUTER + SOFTWARE RETAILERS were prepared by Victoria Burdick in 1984 and 1985, and John Leavy in 1986.) I was not requested to do any background research by counsel, nor did I look at the

questionnaires from years past to double-check the accuracy of the master seed lists as I had never found the master seed lists to be in error before that. In fact, I had checked them for use in other cases, such as *Business Guides v. R.R. Bowker* in the Southern District of New York.

14. Before the November 7, 1986 hearing on the TRO Lisa Margolis called to tell me that Judge Conti's law clerk had requested additional information regarding the ten seeded entries I had forwarded to counsel. Specifically, I was told that the Judge's law clerk wished to know precisely what was incorrect about the seeded entries. To respond, I went back to the master seed lists and compared the entries thereon with defendants' publications. I also attempted to check the accuracy of the seeds which were easily verifiable. I did this by checking Business Guides' 1985 and 1986 directories, and the U.S. Post Office zip code directory. I did not attempt to find questionnaires for years past warehoused in Long Island, nor did I make phone calls to any of the listed companies.

15. I found "The Software Service Center" listed correctly in our 1986 Directory. I therefore realized that the entry on the 1985 master seed list which listed "The Software Service Center" as an incorrect seed, and the "Software Galeria" as the correct information was "reversed." In other words, someone had transposed the information intended to be listed as a seed with the information intended to be listed as correct. I therefore did not include "The Software Service Center" in my Sealed Supplemental Affidavit filed with the Court in support of the TRO.

16. By checking the zip code directory, I also discovered that 77840 was the correct zip code for College Station, Texas. Because the seeded information for Yes Computer was the zip code, and the zip code was in fact correct, I did not include Yes Computer in my Sealed Supplemental Affidavit filed with the Court.

17. By checking the 1985 Directory under Coast Computer Center, I discovered that Mike Seigrist, Jr. was listed as the General Manager. This was the same information that had been listed in the 1984 Directory, and had been listed as a seed in the 1984 Master Seed List. Because the supposedly seeded information appeared as correct in the 1985 Directory, I did not include Coast Computer Center in my Sealed Supplemental Affidavit filed with the Court.

18. Before November 7, 1986, I had several telephone discussions with Lisa Margolis in which I told her the specific information in defendants' directories which was identified as incorrect in Business Guides' 1984, 1985 and 1986 master seed lists. I told Ms. Margolis not to include Yes Computer, Coast Computer Center and the Software Service Center for the reasons described above.

19. On the morning of November 7, 1986, the day of the TRO hearing, Michael Bamberger of Finley, Kumble's New York office brought me a draft of my Sealed Supplemental Affidavit for review. In reviewing the draft of my Supplemental Affidavit prepared by Finley, Kumble, I relied on the accuracy and integrity of Business Guides' master seed lists. I approved the text of the affidavit, with one exception, the paragraph regarding Eagle Microsystems.

20. With respect to Eagle Microsystems, when I checked the zip code directory, I found that defendants had listed the correct zip code for Auburn, Alabama: 36830 and that it was Business Guides which had mistakenly typed 36850 as the "correct" information on the 1984 master seed list. I therefore told Mr. Bamberger that that company should not be included in my Sealed Supplemental Affidavit. I understood that that company would not be included in the affidavit filed with the Court. I since have learned that the paragraph referring to Eagle Microsystems was crossed out in pen, but the paragraph remained in the affidavit.

21. Because I knew that the defendant had copied the "NFR Computer Room", a wholly-fictitious seed (based on Richard Rossini's home address and daughter's name), I knew that it had copied our publication and I believed that defendants likely had copied additional seeded material. Further, by looking at Business Guides' 1985 Directory, I found "Computer Discount of New Jersey" listed. I therefore believed that the 1984 entry "Computer Discount of America" was in fact a seed. I did not think, nor was I advised by counsel, to double-check the accuracy of the master seed lists by telephoning businesses listed as seeds, or trying to find questionnaires from years back used to prepare the master seed lists. I was under substantial time pressure because I was told about the Judge's law clerk request for additional information only a few days before the hearing on the TRO and it would have been [sic] taken several days to retrieve the questionnaire from storage in a Long Island warehouse. I did not receive for review my Sealed Supplemental Affidavit, drafted by counsel, until the morning

of the November 7 hearing. In all events, I believed in and relied upon the accuracy of those master seed lists. While I admit that some of the information on the master seed lists turned out to be inaccurate, I state unequivocally that at no time did I purposefully lie to the court or knowingly affirm erroneous information.

22. I subsequently was informed that the Judge's law clerk had called the businesses listed in my Sealed Supplemental Affidavit, and had found that some of the information in my affidavit was incorrect. I understood that the Judge's law clerk had confirmed that defendants had incorrectly written Computers & Applications' store manager's name as David Choy, but was unable to verify whether NFR Computer Room was a fictitious company. I further understood that the Judge's law clerk discovered that defendants had printed correct information for Computerland, Premier Source Distributing and Price Electronics. Finally, I understood that the Judge's law clerk believed that there was no company named "Computer Discount of New Jersey."

23. As a result on November 8, 1986, Business Guides investigated further into what we thought were seeded company listings. Victoria Burdick, Gerard Loesch and I called the same companies that the Judge's law clerk had. We discovered that the Judge's law clerk was correct that defendants had printed correctly its listings for Computerland, Premier Source Distributing and the current address of Price Electronics. However, we discovered that a retail company called "Computer Discount of New Jersey" continues to do business in West Milford,

New Jersey, but that the mail-order company listed by defendants, "Computer Discount of America", is now known by the name of "World of Computers."

24. In order to determine what had gone wrong with the 1984 master seed lists, I requested the Research Department to retrieve the questionnaires from our Long Island warehouse corresponding to the entries on the master seed lists. I discovered that the 1984 questionnaire, apparently filled out by someone at Premier Source Distributing, had listed the spelling of the Sales Manager as Don Blodsoe. As explained by Victoria Burdick in her accompanying declaration, this is why Bledsoe was listed as a seed in the 1984 Master Seed List.

25. The 1984 questionnaire for Price Electronics Corp. showed that the company listed its mailing address at the time as 1813 Elmdale Avenue, Glenview, Illinois, 60025. This is why the address that the company intended to move to was listed as a seed in the 1984 directory.

26. We have been unable to find the 1984 questionnaire for Computerland. However, we have discovered that the incorrect address, 3845 Bay Road, appears in our 1983 directory. Questionnaires sent to previously listed companies contained the information listed in the prior bound editions. This leads me to believe that the 1984 questionnaire also showed the address listed as 3845 Bay Road. However, someone at Business Guides obviously found our error and changed the address as printed in the 1985 directory to 3545 Bay Road. Because Victoria Burdick thought that the information on the 1984 questionnaire (i.e. 3845) was correct the address 3545 was listed as a seed in the 1984 master seed list.

27. The questionnaires for the years 1984 and 1985 for "Computer Discount of New Jersey" show that the company's retail store was called "Computer Discount of New Jersey" but that its mail order operation was called "Computer Discount of America." I therefore felt that the Computer Discount of New Jersey was an accurate seed in the 1984 master seed list. I, along with Mr. Bamberger, went to Computer Discount of New Jersey to verify this. We also learned, as described in the affidavit I previously have filed with the court, that Computer Discount of New Jersey and Computer Discount of America operated next door to each other at different addresses in the same shopping mall. The shopping mall changed its address system, so that the addresses of both companies changed. Then, Computer Discount of America was sold to a new owner who changed its name to "World of Computers."

28. I discussed all of the information resulting from the Research Department's third stage investigation with Victoria Burdick. Unfortunately, I had to go to Europe in January, 1987, because of the January 17th death of my uncle. Mr. Ephraim Margolin never spoke with me regarding the January 29, 1987, hearing before the Chief Magistrate, nor did I attend that hearing.

29. In early January, 1987, I attended a meeting with Mr. Bamberger and Mr. Allen Gelb in Mr. Gelb's office at the Finley, Kumble law firm in New York. The purpose of the meeting was to discuss what had gone wrong with the 1984 master seed list. It was at this meeting that Victoria Burdick and I remembered that the 1984 master seed list was prepared in November, 1984, after the 1984 edition had been published in April. Ms. Burdick and I then remembered for the first time that the 1984 seed list

had been prepared after the fact, not in accordance with Business Guides' usual procedure of intentionally planting seeds in a directory prior to publication. As more particularly described in Ms. Burdick's accompanying declaration, I believe this fact is very important to understand the innocent nature of the errors in the 1984 master seed list.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 25th day of April at New York, New York.

/s/ Michael Lambe  
Michael Lambe

(Certificate of Service  
Omitted in Printing)

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STEPHEN V. BOMSE  
STEPHEN N. GOLDBERG  
JOSHUA R. FLOUM  
HELLER, EHRMAN, WHITE  
& McAULIFFE  
333 BUSH STREET  
SAN FRANCISCO,  
CALIFORNIA 94104  
(415) 772-6000

Attorneys for Plaintiff,  
BUSINESS GUIDES, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES, INC.	) No. C866164 SC
Plaintiff,	)
	) SEALED
v.	) DECLARATION
CHROMATIC COMMUNICATIONS	) OF VICTORIA
ENTERPRISES, INC. and	) WHITE
MICHAEL SHIPP,	)
Defendants.	)

I, VICTORIA WHITE, DECLARE AS FOLLOWS:

1. The following declaration is based on my personal knowledge. If called upon to testify, I could testify competently as to the matters set forth herein.

2. I am associate director of Mail Marketing Resources at Business Guides, Inc., plaintiff in the above-entitled matter. I have held that position since August 1985. All told, I have worked for Business Guides for eight years.

SUBMITTED UNDER  
SEAL PURSUANT TO  
ORDER OF THE COURT  
ON FILE HEREIN

3. I was the person at Business Guides primarily responsible for communicating with the New York office of Finley, Kumble in the above-entitled action against Chromatic Communications Enterprises, Inc. and Michael Shipp. Upon the recommendation of our in-house counsel, I was the person who initially approached Michael Bamberger of Finley, Kumble to seek counsel regarding a potential law suit against defendants. In so doing, I relied entirely upon information given to me by the Research Department at Business Guides with respect to certain "seeds" that had been found in defendants' publications.

4. In late 1986, I received information from Victoria Burdick which led me to believe that defendants may have been copying without permission entries in Business Guides' 1984 publication of "Directory of Computers + Software Retailers." Ms. Burdick had shown me an entry in defendants' 1985 edition "THE PERSONAL COMPUTER - AN INDUSTRY SOURCEBOOK." That entry was for NFR Computer Room, 87-32 253rd Street, Bellerose, New York, 11426. In fact, that entry was totally fictitious. The listed address in fact was Mr. Rossini's home address. Thus, because the entry was totally fictitious, I could conceive of no way that defendants had come upon that address and business name without having read and copied Business Guides' Directory.

5. In or around September, 1986, I received one of defendants' newly-created "diskettes", a 1986 edition of "MICROLEADS." The fact that defendants were publishing diskettes caused me some concern because it appeared that they had grown into a substantial business, and might pose a direct threat to Business Guides' market. I therefore requested that the operations department

"dump", i.e., prepare a printout, of the diskette, and provide our Research Department with that printout to review to determine if defendants had copied from Business Guides' publications other entries in their publication.

6. In early October, I received from Gerard Loesch a list of five companies which, he told me, showed entries which appeared both on Business Guides' Master Seed Lists, and on defendants' diskette. I checked the 1986 Business Guides' Computer + Software Directory and the printout of the diskette and confirmed the fact that those entries did in fact appear in Business Guides' and defendant's publications.

7. I took copies of the five entries given to me by Gerard Loesch, as well as a copy of the NFR Computer Room entry in defendants' directory and took this information to Lionel Popkin, Business Guides' senior in-house counsel. Mr. Popkin suggested that I take this information to Michael Bamberger of Finley, Kumble's New York office.

8. When I took the information to Mr. Bamberger, he told me he thought we had a good case for copyright infringement and that an associate from his firm would get back to me regarding proceeding. Lisa Margolis from Finley, Kumble's Beverly Hills office contacted me about a week later, and sent out a cease-and-desist letter to defendant Michael Shipp. Ms. Margolis did not send me the cease-and-desist letter to review before it went out, nor had I sent her a list of the seeded information before the letter went out.

9. On October 24, 1986, I sent a letter to Lisa Margolis which attached the list of the five entries found both on Business Guides' Master Seed Lists and defendants' diskette, as prepared by Gerard Loesch. A true and correct copy of the letter with the attachments is attached hereto as Exhibit "A".

10. Between October 24 and October 28, 1986, Michael Lambe gave to me photocopies of four additional entries which, he told me, appeared on Business Guides' master seed lists and in defendants' directories. He also circled, both in Business Guides' publications and in defendants' directory and printout from the diskette, ten entries in total which, he told me, were seeds. The ten entries included NFR Computer Room, the five entries found by Gerard Loesch on defendants' diskette, and the four additional entries found by Mr. Lambe. I relied on the accuracy of the information given to me by Mr. Lambe and Mr. Loesch of the Research Department, and therefore did not check the accuracy of the information which I was told was seeded.

11. On October 28, 1986, I sent a letter to Lisa Margolis, with photocopies of the ten seeded entries in defendants' publications prepared by Michael Lambe together with various copies of Business Guides' and defendant's publications. A true and correct copy of that letter, is attached hereto as Exhibit "B".

12. Before the November 7, 1986 hearing on plaintiff's application for a temporary restraining order before Judge Conti, Lisa Margolis called me several times with specific questions about the seeded entries in defendants' directories. Ms. Margolis wished to know what qualified

the listings to be seeded entries. Each time she asked me such questions, I referred her to Michael Lambe, as I was not involved in preparation of the master seed list or the Business Guides directories in question.

13. I did not participate in preparing affidavits or papers in support of plaintiff's application for a temporary restraining order. I was shocked to find out on November 8 that Judge Conti's law clerk had discovered that certain of the information on the photocopied list of seeds in defendants' directories had turned out to be correct, when we thought the information was incorrect. That day, I listened while Victoria Burdick telephoned Computer Discount of New Jersey to verify whether the company did in fact do business under that name.

14. I did not speak to Mr. Ephriam Margolin before the January 29, 1987, hearing before the Chief Magistrate. I believe it is important for the Court to understand that, at the request of our in-house counsel, I contacted the Finley, Kumble law firm regarding Business Guides' intention to proceed in this action. In so doing, I relied on the information given to me by my co-workers at Business Guides. I am dismayed that certain of that information turned out to be inaccurate. At the time, I had no reason to believe that any of that information was inaccurate; rather, I relied on the accuracy of the information as conveyed to me. I sincerely apologize to the Court for the fact that certain information turned out to be inaccurate. I do believe, however, that there is strong evidence that defendants have copied without authorization Business Guides' directories.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 25th day of April, 1987, at New York, New York.

/s/ Victoria White  
Victoria White

(All Exhibits & Certificate of Service Omitted in Printing)

---

COOPER, WHITE & COOPER  
 NEIL L. SHAPIRO  
 PATRICIA A. PERKINS  
 101 California Street, 16th Floor  
 San Francisco, CA 94111  
 Telephone: 415/433-1900

Attorneys for Defendants  
 CHROMATIC COMMUNICATIONS ENTERPRISES,  
 INC. and MICHAEL SHIPP

UNITED STATES DISTRICT COURT  
 NORTHERN DISTRICT OF CALIFORNIA

BUSINESS GUIDES,	)	NO. C 86
	)	6164 SC (FW)
Plaintiff,	)	DECLARATION
	)	OF MICHAEL
v.	)	SHIPP IN
CHROMATIC	)	SUPPORT OF
COMMUNICATIONS	)	MOTION FOR
ENTERPRISES, INC., and	)	AWARD OF
MICHAEL SHIPP,	)	SANCTIONS
Defendants.	)	

I, Michael Shipp, declare:

1. I am now, and at all times herein relevant was, the President of Chromatic Communications Enterprises, Inc. ("Chromatic"). Prior to the incorporation of Chromatic in 1983, my family and I operated the same business, under the name Chromatic Communications. I have personal knowledge of the matters set forth below, and could testify thereto if called upon to do so.

2. Chromatic is in the business of publishing and marketing books and computer diskettes which constitute lists or compilations of computer retailers and software

dealers. We started our initial venture in this area in late 1981 when a survey of the market for such products revealed a lack of availability of appropriate lists or directories. I decided to enter the market, essentially as a one-man operation with part-time help from my mother and brother and began preliminary collection of data.

3. We conducted independent data collection for each of our publications. The names, addresses, and telephone numbers of many computer hardware and software dealers were obtained from dealer lists provided by manufacturers and by chain store owners. Each listing we obtained through such means was checked independently by the mailing of a survey, which the dealer/manufacturer was to complete. Each company that did not return a survey was called and interviewed over the telephone.

4. Chromatic first published the book "Personal Computer and Industry Source Book" ("the Book") in approximately April of 1983. The Book has been updated since 1983, and is now called "MicroLeads," but each successive edition had been based substantially on the original data collected, modified as necessitated by the ongoing process of checking with listed dealers/manufacturer.

5. It is my understanding from the pleadings filed herein by plaintiff that plaintiff publishes a book entitled "The Directory of Computer and Software Retailers". I can state unequivocally that I never purchased, borrowed, otherwise acquired, or ever had in my possession any such publication prior to preparation by Chromatic of its directories. My only awareness of plaintiff's book was having seen it at plaintiff's promotional booth at

Comdex in Las Vegas. Because I am responsible for, completely direct, and in large part perform, all of the steps necessary for the publication of Chromatic's directories, I can state with complete confidence that no one else at Chromatic ever bought, borrowed, otherwise acquired, or even saw the publication known as "The Directory of Computer and Software Retailers".

6. I have personally reviewed portions of this Court's record, following the unsealing thereof on or about April 12, 1988. From my review of that record, it appears that plaintiff is contending that I copied its publication, and although it originally pointed to ten so-called "seeds" which allegedly prove such copying, that claim is now reduced to a single "seed": Richard Rossini. From a review of my own records, I have determined that Richard Rossini, doing business as The Answer Man, was added to our data base when he ordered one of our directories. Attached hereto as Exhibit "A" is a true and correct copy of his order. Attached hereto as Exhibit "B" is a true and correct copy of his recent order for Micro-Leads. Following our standard practice, I forwarded to Mr. Rossini a questionnaire or survey for completion and return. Attached hereto as Exhibit "C" is a true and correct copy of the completed survey form I received from Mr. Rossini.

7. Shortly after October 16, 1986, I received a letter from Lisa B. Margolis, Esq., an attorney with the Beverly Hills firm of Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey, accusing me of infringing the copyright of her client, demanding that I cease and desist so doing, and threatening immediate litigation unless I complied. My immediate response was to prepare and

send a letter to my attorney, John Cornelius of Concord, California. A true and correct copy of that letter is attached hereto as Exhibit "D". In that letter, I indicated my willingness to show plaintiff all documents used in preparing our directory, including telephone bills, manufacturer lists, newspaper clippings, and the like, and to sit down and perform a line-by-line comparison of both our present and past directories with that published by plaintiff. In addition, I instructed Mr. Cornelius to communicate my willingness in this regard to Ms. Margolis, and to my knowledge he did so. Attached hereto as Exhibit "E" is a true and correct copy of Mr. Cornelius' letter of October 24, 1986, to Ms. Margolis, which enclosed a copy of Exhibit "D" hereto. Neither I nor Mr. Cornelius received any response whatsoever to his letter, until he received a Western Union Mailgram dated October 30, 1986, indicating that plaintiff was going to file suit. Plaintiff filed this action on October 31, 1986, and applied for a temporary restraining order that would prevent me from marketing the books, would have brought my business to a complete standstill, and deprived me of my only source of income. Further, the suit requested damages against my company and me personally totalling several million dollars.

8. While I knew I was innocent of any and all allegations, my immediate concern was whether I could muster the financial resources to defray the legal costs that could be incurred during a long and protracted lawsuit. To finance the defense of this action and to allow for the time required for me personally to defend against the

suit, I restructured Chromatic Communications' marketing program. The out-of-pocket costs of this restructuring, along with related attorney fees are \$45,527.62, plus attorneys fees incurred following this Court's issuance of its Order on April 12, 1988. I consider these losses, damages and expenses suffered by Chromatic Communications to be the direct and proximate result of the filing and pendency of this action. These out-of-pocket losses, damages and expenses are set forth with more specificity below:

(a) *Legal Fees*: In October of 1986, when I first received a letter from Ms. Margolis, I consulted with my regular counsel, Page, Akulian & Harkins, and was thereafter referred to John Cornelius. I paid the firm of Page, Akulian & Harkins \$250 for the consultation. I then consulted with John Cornelius, who corresponded with Ms. Margolis, prepared initial response papers to the litigation, and referred me to Cooper, White & Cooper. I paid Mr. Cornelius \$500 for his services. To date I have paid the law firm of Cooper, White & Cooper \$5,150 in attorney fees, and anticipate paying that firm at least an additional \$2,500 in connection with its review of the Court file and preparation of this Motion for an award of sanctions.

(b) *Business Losses.*

(1) Chromatic lost \$29,856.40 in excess costs on brochures, and in lost profits. I had planned to mail 150,000 brochures for our Dealers on Diskette in 1987. Because of the pendency of the action, and the inherent threat of an injunction, we cut the number of brochures to 100,000 and broke the mailing into two parts. The actual

printing costs totalled \$8,484.60, or \$1,450.20 more than would have been charged for a single print run of 100,000 brochures. Furthermore, because I felt uneasy about mailing the additional 50,000 brochures, we lost net income of \$28,406.20. This net income figure is calculated as follows: our direct mail response on the 100,000 brochures was .0016% which, at \$595.00 per diskette, totals lost revenue of \$47,600. At the same time, however, our costs were reduced, in that we saved \$3,950.80 on printing costs, \$6,250 on postage, \$6,250 on mail lists, \$1,900 for a mail house, and \$840 on assembly and disk preparation, for a total net income loss of \$28,406.20. Added to this is the extra \$1,405.20 in printing costs incurred, for a total profit loss of \$29,856.40.

(2) With respect to our Vendor Brochure, I likewise reduced the mailing from 150,000 brochures to 100,000 brochures, and broke the printing and mailing into two parts. For that brochure, the extra printing costs were \$3,904.56, and the lost revenue (50,000 brochures times .0025% direct mail response rate times \$247.50 per book) totalled \$30,938. After deducting costs comparable to those set forth in the subparagraph above, the loss of net income to Chromatic for the Vendor Brochure was \$5,516.66, together with the additional printing cost of \$3,904.56, for a total loss of \$9,421.22.

9. Although it is difficult, if not impossible, to quantify at this time the impact on our business reputation caused by this action, it is my opinion that the business reputation of Chromatic has suffered substantially and possibly irreparably, given the cash flow impact and marketing restructure required by the plaintiff's lawsuit. The Complaint filed by plaintiff in essence accuses me, and

Chromatic, of theft of the property of another, and raises serious and substantial questions, on the public record, concerning the honesty, integrity, and reliability, of both Chromatic and me. That cloud has hung over us since this action was filed on or about October 31, 1986, and remains to this date.

Executed at San Francisco, California, this 11th day of May, 1988. I declare under penalty of perjury that the foregoing is true and correct.

/s/ Michael Shipp  
Michael Shipp

## EXHIBIT A

A

## INTRODUCTORY OFFER FOR PREFERRED SUBSCRIBERS ONLY

YES, please send me The Directory of Microcomputer Retailers *ON DISKETTE* at the special introductory price of \$495. I understand this represents a \$300 savings off the normal issue price of \$795.

☒ Payment enclosed

(Please make checks payable to CCEP)

☐ COD

☐ Please charge

☐ Visa

☐ Mastercard

Signature Richard Rossini

Card Number \_\_\_\_\_

Expiration Date \_\_\_\_\_

**LIMITED TIME  
OFFER**

Respond by  
May 31, 1986

Name Richard Rossini

Company The Answer Man

Address 87-32 253rd St.

City/State/Zip Bellerose, NY 11426

Phone \_\_\_\_\_

Chromatic Communications Enterprises, Inc.

P.O. Box 3249, Walnut Creek, CA 94598 (415) 945-1602

**SPECIAL OFFER FOR PREFERRED CUSTOMERS**

YES, ENTER 1 order(s) for the 1987 Edition of The Personal Computer—An Indus Source Book at the special rate of \$247.50 I understand this represents a SAVINGS of 50% off normal price of \$495.

☒ Payment enclosed

☐ COD

☐ Please charge my

☐ Visa

☐ Mastercard

Signature \_\_\_\_\_

Card Number \_\_\_\_\_

Expiration Date \_\_\_\_\_

**LIMITED TIME  
OFFER**

Respond by  
December 31, 1986

Name Richard Rossini

Title President

Company The Answer Man

Address 87-32 253rd St.

City Bellerose

State NY

Zip 11426

Phone 718-343-0114

*California residents please add \$14.85 for state sales tax.*

THE PERSONAL COMPUTER—AN INDUSTRY SOURCE BOOK

P.O. Box 3249, Walnut Creek, CA 94598 (415) 945-1602

MicroLeads™  
Vendor Directory\*  
1988 Edition Just Released  
ONLY \$247.50  
SAVE 50%

EXHIBIT B

Customer:		Ship To:	
Richard Rossini ANSWER MAN 87-32 253rd Street Bellerose NY 11426		Richard Rossini Answer Man 87-32 253rd St. Bellerose NY 11426	
Form of Payment: <input checked="" type="checkbox"/> Check Enclosed <input type="checkbox"/> COD <input type="checkbox"/> VISA <input type="checkbox"/> Master Charge			
Name on Card:			
Card Number:			
Expiration Date:			
Qty.	Description	Cost	
1	copy of MicroLeads - Vendor Directory	\$ 247.50	
1	copy of MicroLeads - Dealer Directory	FREE**	
** If the MicroLeads Vendor Directory is ordered by March 15.		Sales Tax	
		\$ 0.00	
		Freight	
		\$ 0.00	
(718) 343-0114		Total Due	
		\$ 247.50	

\*Formerly The Personal Computer - An Industry Source Book.

C

THE PERSONAL COMPUTER -  
AN INDUSTRY SOURCE BOOK  
P.O. Box 3249  
Walnut Creek, CA 94598  
(415) 945-1602

March 20, 1986

Nick Rossini  
NFR COMPUTER ROOM  
87-32 253rd Street  
Bellrose NY 11426

Nick Rossini

The following information was published in the 1985-1986 edition of The Personal Computer - An Industry Source Book. We would appreciate your making any necessary changes to your listing and returning it to us by May 1, 1986.

*Rossini's Computer Room*  
~~NFR COMPUTER ROOM~~  
87-32 253rd Street  
Bellrose NY 11426

#### INDUSTRY MEMBERS

President

Nick Rossini

#### COMPANY PROFILE

Year Established: 1981  
Number of Employees: 5  
Sales Volume: \$2.5-\$5MM  
Form of Entity: Sole Proprietorship

#### PRODUCT LINE DESCRIPTION

Three store retail chain operating in New York State.

Sincerely,

Michael Shipp  
Publisher

(Exhibits "D" & "E",  
& Certificate of Service  
Omitted in Printing)

5  
No. 89-1500

Supreme Court, U.S.

FILED

AUG 20 1990

JOSEPH E. SPANIOL, JR.  
CLERK

In The  
Supreme Court of the United States  
October Term, 1990

BUSINESS GUIDES, INC.,

*Petitioner,*

vs.

CHROMATIC COMMUNICATIONS ENTERPRISES,  
INC. and MICHAEL SHIPP,

*Respondents.*

On Writ Of Certiorari To The United States  
Court Of Appeals For The Ninth Circuit

BRIEF OF PETITIONER ON THE MERITS

STEPHEN V. BOMSE\*  
STEPHEN N. GOLDBERG  
JOSHUA R. FLOUM  
HELLER, EHRLMAN, WHITE  
& MCAULIFFE  
333 Bush Street  
San Francisco, CA 94104  
Telephone: (415) 772-6000  
*Attorneys for Petitioner*

\* Counsel of Record

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964  
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**QUESTION PRESENTED**

Under Federal Rule of Civil Procedure 11, may a represented party be sanctioned and its case dismissed for submitting erroneous information to the district court when it believed, in good faith, in the accuracy of such information based on an examination of its business records?

## PARTIES

In addition to the parties named in the caption, pursuant to Rule 28.2 petitioner identifies the following parties which may have an interest in the outcome of the petition: Lebhar-Friedman, Inc. (parent of petitioner); Chain Store Publishing Corp. (corporate affiliate of Lebhar-Friedman, Inc.); and Largo Music, Inc. (corporate affiliate of Lebhar-Friedman, Inc.).

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No. 89-1500

In The

Supreme Court of the United States

October Term, 1990

BUSINESS GUIDES, INC.,

*Petitioner,*

vs.

CHROMATIC COMMUNICATIONS ENTERPRISES,  
INC. and MICHAEL SHIPP,

*Respondents.*

On Writ Of Certiorari To The United States  
Court Of Appeals For The Ninth Circuit

BRIEF OF PETITIONER ON THE MERITS

OPINIONS BELOW

The February 16, 1990 decision of the United States District Court for the Northern District of California is reprinted in the appendix to the Petition for Writ of Certiorari ("Pet. App.") at 1a-2a. The December 21, 1989 opinion of the United States Court of Appeals for the Ninth Circuit is reported at 892 F.2d 802 and is reprinted at Pet. App. 3a-26a. The August 5, 1988 decision of the United States District Court for the Northern District of California is reported at 121 F.R.D. 402 and is reprinted at Pet. App. 27a-34a. The April 12, 1988 decision of the United States District Court for the Northern District of California is reported at 119 F.R.D. 685 and is reprinted at Pet. App. 35a-46a. The September 14,

1987 Magistrate's revised report and recommendation is reprinted at Pet. App. 47a-63a. The April 3, 1987 Magistrate's report and recommendation is reprinted at Pet. App. 64a-81a.

### JURISDICTION

The judgment of the Court of Appeals was entered on December 21, 1989. The jurisdiction of this Court was invoked under 28 U.S.C.A. § 1254(1) (West Supp. 1990). The petition for a writ of certiorari was granted on June 25, 1990.

### RULE AND STATUTE INVOLVED

The Federal Rule of Civil Procedure at issue is Rule 11, which provides in pertinent part:

Every pleading, motion, and other paper of a party represented by an attorney shall be signed by at least one attorney of record in the attorney's individual name, whose address shall be stated. . . . The signature of any attorney or party constitutes a certificate by the signer that the signer has read the pleading, motion, or other paper; that to the best of the signer's knowledge, information and belief formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law, and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation. If a pleading, motion, or other paper is signed in violation of this rule, the court, upon motion or upon its own initiative, shall impose upon the person who signed it, a represented party, or both, an appropriate sanction, which may include an order to pay to the other party or parties the amount of the reasonable expenses incurred because of the filing of the pleadings, motion, or other paper, including a reasonable attorney's fee.

(As amended Apr. 28, 1983, eff. Aug. 1, 1983).

The federal statute involved is the Rules Enabling Act, 28 U.S.C.A. § 2072 (West Supp. 1990), which provides:

(a) The Supreme Court shall have the power to prescribe general rules of practice and procedure and rules of evidence for cases in the United States district courts (including proceedings before magistrates thereof) and courts of appeals.

(b) Such rules shall not abridge, enlarge or modify any substantive right. All laws in conflict with such rules shall be of no further force or effect after such rules have taken effect.

(Added Nov. 19, 1988, P.L. 100-702, Title IV, § 401(a), 102 Stat. 4648.)

### STATEMENT OF THE CASE

#### A. Statement of the Legal Issue Presented

This petition asks the Court to decide whether, under Federal Rule of Civil Procedure 11, district courts may require litigants to conform to objective standards of competence, a requirement heretofore reserved for counsel. Petitioner submits that the answer must be no; that, instead, federal courts may only reasonably expect – and properly demand – that represented clients act in good faith and disclose the entire truth in all proceedings. Requiring attorneys to meet a higher standard, variously described as a baseline of “professional competence”<sup>1</sup> or “objective” reasonableness, reflects the fact that lawyers, as professionals and officers of the court, have special responsibilities in the conduct of litigation. A rule which insists that clients act in good faith, but allows them to rely on their counsel for advice as to proper pre-filing inquiries and other matters of litigation procedure, recognizes that lawyers, not laypersons, are the

<sup>1</sup> *Calloway v. Marvel Entertainment Group*, 854 F.2d 1452, 1474 (2d Cir. 1988), *rev'd in part sub nom on other grounds, Pavelic & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989).

most appropriate "gatekeepers"<sup>2</sup> to the orderly operation of our courts. In their dual role as advocate and court official, it is the responsibility of members of the bar to ensure that only legally and factually plausible claims or defenses are litigated. While sanctioning lawyers for objectively unreasonable behavior thus promotes professionalism and deters meritless claims, no such salient purposes justify sanctioning the client who, although acting in good faith, turns out to be wrong.

Furthermore, construing Rule 11 to allow sanctions, including fee-shifting, against represented parties for mere negligence would violate the Rules Enabling Act, 28 U.S.C.A. § 2072 (West Supp. 1990). It is for Congress, not the courts, to determine how the "burdens of litigation"<sup>3</sup> should be allocated. Further, the Ninth Circuit's broad interpretation of Rule 11 would "abridge, enlarge or modify" federal and state laws specifically addressing liability for errors in litigation, all under the guise of a rule of procedure. Such needless judicial "legislation" exceeds the authority delegated by Congress to this Court under the Enabling Act.

## B. Statement of Facts<sup>4</sup>

Petitioner Business Guides, Inc. was sanctioned under Rule 11 because it signed and filed papers in the district court which, unfortunately for all concerned, contained factual errors. Although petitioner relied in good faith on the accuracy of a business record in preparing its lawsuit, undertook on its own initiative to confirm the information contained therein, and conveyed all the facts as it believed them to be to

<sup>2</sup> See note 25 and accompanying text, *infra*.

<sup>3</sup> *Alyeska Pipeline Co. v. Wilderness Soc'y*, 421 U.S. 240, 247 (1975).

<sup>4</sup> In accordance with Rule 24, we use the following citation form: citations to the Joint Appendix are listed as "J.A. page no.", citations to the Record are listed as "R. docket no., page no." and citations to materials contained in the appendix to the petition for certiorari are listed as "Pet. App. page no.".

its counsel, Business Guides nevertheless was required to pay respondents' attorneys' fees and had its case dismissed, because the district judge believed that it had failed to conduct an objectively reasonable inquiry. The facts underlying this severe sanction could be characterized as a comedy of errors, but for the all-too-serious chain of events which they triggered. Nevertheless, what emerges from a recitation of the following facts is that the errors made were entirely innocent.

Business Guides is a subsidiary of Lebhar-Friedman, Inc., a publisher of trade journals and magazines. Business Guides publishes directories of various businesses, including a directory of computer and software retailers ("Directory") which contains thousands of business listings laboriously compiled through written questionnaires and follow-up research. (J.A. 34-39, 50, 53-55) In 1986, Business Guides discovered facts which it believed demonstrated that respondents had copied information from its Directory. After conveying these facts to its former counsel, the now-dissolved firm of Finley, Kumble, Wagner, Heine, Unterberg, Manley, Myerson & Casey ("Finley Kumble"), and on Finley Kumble's advice, Business Guides authorized the firm to prepare and file a complaint and seek a temporary restraining order to restrain respondents from publishing and selling directories containing copied material. (J.A. 95-98, 194-99) The specific paper for which Business Guides was sanctioned<sup>5</sup>

<sup>5</sup> As set forth at pp. 16-17, *infra*, Business Guides alone ultimately was sanctioned for papers prepared by Finley Kumble. Before the district court concluded its Rule 11 proceedings, Finley Kumble filed for bankruptcy and respondents withdrew their request for sanctions against the law firm. (R.77; R.80; Pet. App. 28a) Accordingly, the district court was left to impose sanctions, if at all, only against the represented party. Not only was this procedure at odds with the assumption of courts and commentators that "if sanctions are imposed, they will be imposed on the lawyer," American Judicature Society, *Rule 11 in Transition, The Report of the Third Circuit Task Force on Federal Rule of Civil Procedure 11* 30 (Burbank, Reporter 1989), see pp. 21-23, *infra*, but it also prevented the

(Continued on following page)

was a declaration prepared by Finley Kumble and signed by one of Business Guide's employees, Michael Lambe, detailing what Mr. Lambe believed in good faith to be the listings which had been copied. (J.A. 86-89; Pet. App. 26a)

The reasons for the errors contained in Mr. Lambe's declaration are somewhat involved, but relate to the faulty (and, in hindsight, ill-advised) preparation of a business record, known as a "master seed list" (J.A. 131-146), nearly two years before the underlying action was filed. Mr. Lambe relied on the accuracy of that business record in executing his declaration. Business Guides was sanctioned because, according to the district court, Mr. Lambe *should have discovered* that the business record was inaccurate, but did not. (Pet. App. 32a, 42a)<sup>6</sup>

As may be discerned from its title, Business Guides' "master seed list" is a list of intentionally incorrect information which is planted in its directories to detect copying. The use of such "seeds" is common among publishers of directories, telephone books and atlases. Business Guides uses two types of seeds. "Type A" seeds are listings of businesses

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(Continued from previous page)

court from weighing the conduct of petitioner's *counsel* in relation to petitioner's actions. The practical consequence of this procedure was to allow "fee-shifting" under the guise of a rule directed primarily at conduct of the bar. See pp. 40-48, *infra*.

<sup>6</sup> Although the question of whether Mr. Lambe in fact was negligent is not dispositive of the issues presented in this proceeding, it bears noting that it took three separate hearings and three sets of counsel to uncover the problem with the seed list that the court believed Mr. Lambe should have discovered himself. (Pet. App. 48a) See also note 29, *infra*, for a discussion of the reasons why courts traditionally rely, as did Mr. Lambe, on the accuracy of business records.

which do not exist at all.<sup>7</sup> "Type B" seeds are partially altered listings which contain minor errors such as transposed numbers in an address or zip code or misspelled names. The appearance of one or more seeds in a competitor's publication is considered strong evidence of copyright infringement. (J.A. 105-6, 161)

In the normal course of its business, Business Guides compiles and maintains master seed lists for each type of directory it publishes. These documents identify each Type A and B seed which appears in the particular directory. The seed lists are stored by the company in a secure vault. Normally, the seed lists are prepared prior to publication, and the seeds are inserted just before final printing. (J.A. 105-6, 161; R.71, 33-36)

Concerned that its 1984 Directory did not contain enough seeds, Business Guides created its 1984 master seed list in a unique and, as it turned out, faulty manner. In addition to intentionally planting incorrect information, Business Guides decided to augment its "seed" list by identifying and listing as Type B seeds the typographical errors which inevitably occur as a result of the tedious process of gathering, editing and printing thousands of separate informational listings.<sup>8</sup> Accordingly, Business Guides directed one of its employees, Victoria Burdick, to locate the typographical errors which had found their way into its 1984 Directory and

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<sup>7</sup> One of these Type A seeds, "NFR Computer Room," an entirely fictitious listing made up by Business Guides, appeared in respondents' 1985 directory. This company was created from the initials of the daughter of one of Business Guides' employees (Nicole F. Rossini), and the listed address actually was that employee's home address. (J.A. 174-180)

<sup>8</sup> Business Guides' directories list thousands of different companies. These listings, which typically contain a name, telephone, address and short description of each business, fill hundreds of printed pages. (J.A. 50; R.12) Thus, a few typographical errors in the final printing are virtually inevitable.

expand the seed list for that directory, post-publication. (J.A. 163-164) In theory that was a fine idea.

Ms. Burdick was told to compare the printed 1984 directory with the initial information sheets (or questionnaires) used by Business Guides to compile information about the companies to be listed. Whenever she found a discrepancy, she listed the information *printed in the directory* as a Type B seed (*i.e.* as being incorrect information). *Id.* The problem with this approach, however, was that it was based on the unknowingly flawed assumption that all of the information in the questionnaires was correct, so that any discrepancy represented an error in the printed volume. In fact, however, the information appearing in the final directories often had been corrected or revised in the editing and proofreading process leading up to final publication, *but without modifying the original questionnaires themselves.* (J.A. 169, 184-185)

Hindsight is, of course, twenty-twenty. The method employed by Ms. Burdick led to a 1984 master seed list which listed as purported Type B "seeds" a number of entries that, in fact, were *accurate*. That being the case, the presence of "seeded" information in a competitor's publication would not (contrary to Business Guides' intentions and belief) evidence copying at all. That fact remained hidden like a land mine waiting for Business Guides to take a crucial misstep.

The faulty preparation of the 1984 master seed list remained unknown to Business Guides at the time it filed the underlying action. In fact, the district court expressly noted that Business Guides did not even understand the significance of the faulty preparation of the list until its present counsel explained it to representatives of the company *and to the court*, long after the complaint and TRO papers in this action were filed and sanctions originally imposed. (Pet. App. 57a-59a) Up until that time, Business Guides believed in good faith that respondents had copied the seeds listed in its seed list and that the appearance of the seeds in respondents' publication therefore evidenced copyright infringement. (J.A. 190; Pet. App. 48a, 53a)

Business Guides first suspected respondents of copying information from its directories in 1985 when a Type A (wholly fictitious) seed was found in respondents' 1985 directory. (J.A. 185)<sup>9</sup> Those suspicions were heightened in 1986, when respondents published a diskette version of their computer directory. The diskette contained eight additional Type B seeds from the 1984 master seed list, and one Type B seed from the 1986 master seed list (J.A. 33-34, 185-86, 196-97)<sup>10</sup> At this point, Business Guides contacted Finley Kumble, which for years had been the company's copyright counsel, and discussed the appearance of these ten "seeds" in respondents' directories. Finley Kumble neither asked its client to explain what made the specific inaccuracies in the ten listings "seeds," nor did it verify (or request Business Guides to verify) the information contained in the company's business records. (J.A. 106, 186-187, 189) Instead, Finley Kumble advised Business Guides that it had good grounds to file a lawsuit against respondents for copyright infringement, conversion and unfair competition. Business Guides accordingly authorized the initiation of such an action. (J.A. 196-99)

The October 31, 1986 complaint and TRO papers<sup>11</sup> filed by Finley Kumble on petitioner's behalf are best described as cursory. Finley Kumble did not even attempt to explain to the court the way in which any of the alleged inaccuracies in the ten business listings (conclusorily characterized as "seeds") were, in fact, inaccurate. That omission predictably led the

<sup>9</sup> See note 7, *supra*.

<sup>10</sup> The 1986 master seed list (J.A. 155-59), unlike the 1984 list, was prepared in the routine manner; that is, all of the seeds were intentionally planted before publication. (J.A. 155-59) One of the type B seeds from that list also appeared in respondents' 1986 diskette (J.A. 79, 109; R.71, 88, 114; Pet. App. 72a), and has not been explained by respondents in any of its filings to date.

<sup>11</sup> Finley Kumble's initial application sought both a TRO and a preliminary injunction restraining respondents from marketing their directory. (J.A. 8-21)

district judge's law clerk to call Finley Kumble and request details regarding the incorrect information in the ten "seeds." (J.A. 121; Pet. App. 65a-66a)

Only then (November 4, 1986) did Finley Kumble first ask its client for any details about the seeds. The inquiry from counsel was directed to Mr. Lambe, a relatively junior employee in charge of research. (J.A. 121, 187) Mr. Lambe was involved in the decision to file suit against Chromatic and was, of course, generally aware of the seeding process. However, he had not been involved in the preparation of the 1984 master seed list and knew nothing about the unusual way in which it had been prepared. (J.A. 186-87, 192-93)

In the short time available to him (the TRO hearing was scheduled for November 7, 1986), Mr. Lambe reviewed the 1984 master seed list and provided Finley Kumble with the requested details as listed therein. In addition, *and entirely on his own initiative*, Mr. Lambe decided to attempt to verify the information which had been submitted to the court. He checked subsequent business directories to ascertain whether seeds had been corrected in those later publications. To verify the Type B seeds containing altered telephone numbers or addresses, he checked telephone books for listed local businesses and zip code directories for out-of-town businesses. Mr. Lambe also thought to check the questionnaires themselves, but they were stored in an out-of-town warehouse and could not be retrieved before the TRO hearing. However, as ultimately proved dispositive in the opinion of the district and circuit courts, Mr. Lambe did not think to telephone representatives of the ten businesses to verify the seeds itemized in the complaint and TRO papers. (J.A. 187-190; R.71, 38-40)

As a result of the checking he was able to do, Mr. Lambe became uncertain about four of the seeds and requested Finley Kumble to withdraw them. He believed that he had verified three of the other seeds. Mr. Lambe was not able to

corroborate the remaining three seeds but, as he testified, he felt that he had no reason to doubt them. (J.A. 187-90; R.71, 37-40)<sup>12</sup>

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<sup>12</sup> Mr. Lambe's continuing, if ill-advised, belief in the validity of Business Guides' action after he had withdrawn the four seeds was influenced by three factors. *First*, to Mr. Lambe's mind, the appearance of the wholly fictitious (or "Type A") "NFR Computer Room" seed in respondents' directory was plain and irrefutable evidence of copying. (J.A. 189-90; R.71, 39-40)

*Second*, as Mr. Lambe testified, Business Guides had "never had difficulty with master seed lists before and we'[d] either been involved directly in litigation or threatened litigation, and we never had a problem with them." (R.71, 39) Indeed, Business Guides had just succeeded in forcing a subsidiary of Xerox Corporation to admit to copying and to stipulate to an injunction and the payment of damages based on evidence derived from the 1984 master seed list. (J.A. 95-96, 106)

*Third*, Mr. Lambe had no idea that there was any basis to question the integrity of the 1984 master seed list until *after* the TRO hearing. Thus, he testified:

Q. Is it your recollection that the only questions that were raised, at least as far as you knew, prior to the time when that hearing was held and your application for an injunction was denied were questions about what the seeds meant rather than any questions about whether they were valid?

A. That's my recollection.

Q. Okay.

A. And I would think that had I heard about the invalidity of them, I would have started doing some independent checking myself.

Q. Okay. In fact, the first time you knew that a question of validity had been raised was on the Saturday after the hearing when your lawyers let you know what had happened; is that right?

A. Yes, blue Saturday.

(R.71, 45-46)

Finley Kumble explained to Mr. Lambe that, in light of the law clerk's request for further information, it would be necessary to prepare a supplemental declaration setting forth details regarding the remaining six seeds. However, Finley Kumble did not forward a draft of that declaration to Mr. Lambe for his review *until the morning of the TRO hearing*.<sup>13</sup> (J.A. 108, 188) Even then, the declaration contained one of the four seeds Mr. Lambe had specifically requested counsel to withdraw. (J.A. 188-89) Mr. Lambe carefully reviewed his declaration in the time he had before the hearing was to begin, and crossed out in ink the "seed" Finley Kumble had neglected to withdraw. He then signed the declaration under penalty of perjury, believing in good faith in its accuracy

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<sup>13</sup> Petitioner argued below that, due to the short amount of time Mr. Lambe had to review and verify his declaration – only a few hours – his conduct was objectively reasonable under the circumstances (in addition to being subjectively reasonable). Petitioner cited to the statement of the Rules Advisory Committee that "what constitutes a reasonable inquiry may depend on such factors as how much time for investigation was available to the signer." Fed. R. Civ. P. 11 Advisory Committee Note. The Ninth Circuit rejected that contention, stating: "[T]he argument is curious that when a party is facing its self-imposed deadline [the date of the TRO hearing], it is excused from what would otherwise be unreasonable." (Pet. App. 22a-23a) This response, however, ignores the fact that counsel could have drafted a declaration detailing the information in the seeds at any time before filing the complaint – or at any point thereafter prior to the TRO hearing – but only prepared the declaration as a result of a request by the court and only submitted the document to Mr. Lambe for his review hours before the TRO hearing, telling him that it was urgent that he sign and return it immediately. (J.A. 108, 188) In short, the time restrictions were by no means "imposed" by Business Guides or Mr. Lambe. Moreover, it is particularly unfair to suggest that Mr. Lambe somehow controlled, let alone manipulated, the process. That ignores the reality of corporate life. Mr. Lambe was a mid-level officer responding to urgent requests from his employer's corporate counsel. Those are not circumstances that encourage second-guessing.

(J.A. 190), and counsel telecopied the signed document from New York to San Francisco. (J.A. 108-09)<sup>14</sup>

In the meantime, the district judge's law clerk had been doing his own independent investigation. Due in part to the perfunctory pleadings filed by counsel and in part to the fact that the record had been sealed and the law clerk apparently was confused about whether respondents' attorney would have the opportunity to respond,<sup>15</sup> the law clerk took it upon himself to telephone the companies listed in the remaining six seeds. (R.60, 13-15) When he did so, he discovered that four additional seeds in fact contained correct information. The TRO hearing, consequently, was a short one. The court refused oral argument, denied the TRO application, stayed all proceedings including discovery and referred the action to a magistrate to determine whether Finley Kumble

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<sup>14</sup> Mr. Lambe's belief that Business Guides had a strong copyright infringement case, even after the court made inquiries and he had withdrawn four of the original ten seeds, was also informed by the advice of his counsel. Michael Bamberger, the lead Finley Kumble lawyer on the case, testified in a declaration below:

I believe that on the basis of the first 'seed' [NFR Computer Room] alone, both an application and a temporary restraining order should have been justified. When the three [remaining] 'seeds' are taken together, it is clear to me that the plaintiff is correct in his allegations and the temporary restraining order could well have issued in the absence of the remaining 'seeds.'

(J.A. 110)

As we discuss, *infra*, judging the merits of a case based on a set of facts is the specialty of *lawyers*, not clients. Mr. Lambe's good faith belief that Business Guides had a meritorious case *based on the advice of his counsel* should not be cause for sanctions against the client. See pp. 22-26, *infra*.

<sup>15</sup> Although the court signed orders directing that respondents' counsel would have access to the sealed pleadings (J.A. 57-58, 84-85), the law clerk testified that he felt he could not assume that service had been accomplished due to the eleventh-hour filing of Mr. Lambe's declaration. (R.60, 13-15)

and/or Business Guides should be sanctioned under Rule 11. (R.30; Pet. App. 64a)

Chief Magistrate Frederick Woelflen initially conducted two separate evidentiary hearings under the auspices of the Rule. Despite an apparent conflict of interest, both Finley Kumble and Business Guides were represented by the same newly-retained counsel,<sup>16</sup> who argued that the factual errors contained in Mr. Lambe's affidavit were merely coincidental. (Pet. App. 71a) On April 3, 1987, the magistrate filed a report with the district court recommending that both Finley Kumble and Business Guides be sanctioned under Rule 11 and that the Court initiate proceedings against one of Finley Kumble's partners under Title 18 of the United States Code and Rule 42 of the Federal Rules of Criminal Procedure. (Pet. App. 73a-75a) The magistrate stated in his report that he doubted the good faith of both Business Guides and its counsel because he found it inconceivable that the factual errors in Mr. Lambe's affidavit were attributable to mere coincidence. (Pet. App. 71a)<sup>17</sup> With respect to the law firm, the magistrate stated:

We further find it impossible to believe Finley, Kumble truly believed such remarkable facts and coincidences. We think Finley, Kumble attempted to protect an old and profitable client. Lying on the stand, under the penalty of perjury, carries advocacy too far.

(Pet. App. 74a)

<sup>16</sup> "[There is] an inherent problem in a sanction hearing addressed to both a plaintiff and her attorneys, where the plaintiff and attorneys are not separately represented." *In re Ruben*, 825 F.2d 977, 985 (6th Cir. 1987), cert. denied sub nom, *Swan v. Ruben*, 485 U.S. 934 (1988). See also, *Calloway v. Marvel Entertainment Group*, 854 F.2d 1452, 1456 (2d Cir. 1988), rev'd in part sub nom on other grounds, *Pavelic & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989).

<sup>17</sup> In fact, of course, they were not; but neither Finley Kumble nor Business Guides figured that out. This unfortunate failing complicated the entire proceedings. See notes 19 and 21, *infra*.

At that point, Business Guides retained its present counsel who conducted their own investigation and uncovered the facts regarding the faulty preparation of the 1984 master seed list. Based on the results of that investigation they requested a further sanctions hearing. The court granted Business Guide's request and a new evidentiary hearing was held during which the company's misplaced reliance on the integrity of the questionnaires to create its 1984 master seed list finally was explained for the first time. (Pet. App. 48a) As a result, on September 14, 1987, the magistrate issued a revised report and recommendation in which he found, contrary to his earlier belief, that Business Guides and Mr. Lambe had acted in good faith, albeit mistakenly (Pet. App. 39a-40a, 53a), and that neither Business Guides nor its counsel had taken part in any intentional misrepresentation or cover-up. *Business Guides v. Chromatic Communications Enters., Inc.*, 119 F.R.D. 685, 687 (N.D. Cal. 1988). (Pet. App. 39a-40a)<sup>18</sup>

He also found that Business Guides' lawsuit was not "interposed for any improper purpose." (Pet. App. 53a)<sup>19</sup>

<sup>18</sup> The magistrate also noted in his revised opinion that Business Guides *had every incentive* to explain to him the significance of the manner in which the seed lists had been prepared (because that explanation would have demonstrated that its errors were innocent) but simply failed to appreciate the significance of the issue. (Pet. App. 57a)

<sup>19</sup> The Magistrate's initial belief that Finley Kumble and Business Guides had acted in bad faith surely is understandable in light of the "coincidence" argument presented to him by former counsel. As the Magistrate stated in his revised report:

At [the first two] hearings, the parties testified plaintiff relied upon the questionnaire . . . for the information presented to the court. They testified that it was only a coincidence that the information represented to the court as incorrect seeded information . . . was actually correct. In my April 3, 1987 Report, I noted that in order for the court to believe defendant's explanation, plaintiff must be able to persuade me that [the listed] company incorrectly spelled [its manager's] name on the

(Continued on following page)

Despite the magistrate's revised determination that Business Guides had acted in good faith, he nonetheless recommended that it be sanctioned under Rule 11 for three separate reasons, only the first two of which are at issue here: *first*, for relying on the inaccurate 1984 master seed list in commencing the copyright infringement action; *second*, for submitting Mr. Lambe's declaration without a "telephone check" of the information contained in the seed list; and *third*, for presenting the "coincidence" explanation at the first two evidentiary hearings. (Pet. App. 53a-62a)

The district court adopted these findings and recommendations, unsealed the record and invited respondents to seek sanctions under the Rule. (Pet. App. 37a-46a) By this time,

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questionnaire. More importantly however plaintiff would have had to convince me that it was merely coincidental that plaintiff chose to alter, among thousands of listings contained in the directory, first, this particular listing; second, this particular letter in the word, resulting in an alteration which turned out to be the true spelling of this man's name. I noted plaintiff asked me to believe the occurrence of a very similar coincidence in [a second] seed. I found the occurrence of two such similar and incredible coincidences impossible to believe. Accordingly, I doubted the good faith of the parties' representations and recommended sanctioning them for offering false representations in defense of Rule 11 sanctions. I also suggested that disciplinary proceedings against Finley Kumble may also be appropriate pursuant to Local Rule 110-7.

The parties then filed objections to the April 3 Report and another hearing was scheduled before me on July 5, 1987. In preparation for this third evidentiary hearing, plaintiff filed a brief and affidavits wherein it explained, for the first time, that the reason inaccurate information had been conveyed to the court stemmed from Victoria Burdick's preparation of the Master Seed List for the 1984 directory.

(Pet. App. 51a-52a)

Finley Kumble had dissolved and filed for bankruptcy. Accordingly, respondents notified the court that they would seek sanctions (in the form of their costs, attorneys' fees and compensatory damages) solely from Business Guides. (R.77; R.80; Pet. App. 28a) After briefing by both sides (but without permitting oral argument), the district court imposed monetary sanctions of \$13,865.66 (equal to respondents' purported costs and attorneys' fees) against Business Guides and, despite the existence of evidence suggesting possible infringement,<sup>20</sup> dismissed Business Guides' lawsuit (before any discovery) with prejudice. (Pet. App. 34a)<sup>21</sup>

Business Guides appealed. In that appeal it urged the court to adopt the standard of Rule 11 liability established by the Second Circuit in *Calloway* that while an objective (should have known) standard of reasonableness applies to the conduct of *attorneys* under Rule 11, a "subjective" (or "good faith") standard governs the conduct of *represented parties*. The Ninth Circuit declined to do so.

The Court noted initially that whether the objective or subjective standard applies to represented parties under Rule 11 was "purely a legal question" and was an "issue of first impression" in that Circuit. *Business Guides v. Chromatic*

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<sup>20</sup> See notes 7 and 10, *supra*.

<sup>21</sup> We believe that it is fair to observe that, despite the ultimate acknowledgment of Business Guides' (and its attorneys') honesty and good faith, the proceedings were unavoidably colored by the fact that an inadequate presentation to the chief magistrate led him originally to suspect that both Business Guides and Finley Kumble *had acted in bad faith*. See note 19, *supra*. Indeed, the district court sanctioned Business Guides for that presentation. (Pet. App. 43a-45a) Although the district court subsequently found that Business Guides in fact had acted in complete good faith – and the Ninth Circuit reversed that part of the court's order imposing sanctions for the arguments presented by counsel at the evidentiary hearings – the earlier conclusion (as well as the extensive satellite proceedings required to understand what had happened) doubtless influenced the outcome, including the district court's remarkable choice of dismissal with prejudice as a sanction.

*Communications Enters., Inc.*, 892 F.2d 802, 808 (9th Cir. 1989). (Pet. App. 13a, 15a)<sup>22</sup> However, based in large part on its reading of the Advisory Committee Notes and on policy arguments favoring the expanded use of sanctions in federal courts, the court of appeals held that "an objective standard of reasonableness applies to lawyers and represented parties alike." *Id.* at 812. (Pet. App. 21a) The court then affirmed the district court's finding that Business Guides failed to satisfy this objective standard in relying on the accuracy of its business records.

Because the court reversed that part of the district court's opinion imposing sanctions on the basis of conduct at the evidentiary hearings before the magistrate, it also vacated the order of sanctions, allowing the district court to reconsider its choice of penalties. (Pet. App. 26a) However, without permitting briefs or oral argument, the district court *sua sponte* issued an order on February 16, 1990, reaffirming the monetary sanctions and order of dismissal for reliance on the master seed list and for failure to conduct the telephone check which the court believed would have constituted an objectively reasonable inquiry. (Pet. App. 1a-2a) Business Guides' petition for certiorari was granted by this Court on June 25, 1990.

### SUMMARY OF ARGUMENT

The Second Circuit has carefully differentiated between attorneys and their clients for the purpose of evaluating

<sup>22</sup> This Court recently held that appellate courts generally will review Rule 11 decisions under the abuse of discretion standard. However, "if a district court's findings rest on an erroneous view of the law, they may be set aside on that basis." *Cooter & Gell v. Hartmarx Corp.*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 2447, 2459 (1990), quoting *Pullman-Standard v. Swint*, 456 U.S. 273, 287 (1982); see also *Icicle Seafoods, Inc. v. Worthington*, 475 U.S. 709, 714 (1986) ("If [the Court of Appeals] believed that the District Court's factual findings were unassailable, but that the proper rule of law was misapplied to those findings, it could have reversed the District Court's judgment"). Accordingly, if the Court accepts petitioner's argument that the Ninth Circuit applied the wrong rule of law, it should reverse its decision on that basis.

conduct under Rule 11. While attorneys are expected to "measure up to minimal standards of professional competence" under the Rule, the Second Circuit concluded that subjective good faith shields represented parties from sanctions for pleadings which contain errors or inaccuracies. *Calloway v. Marvel Entertainment Group*, 854 F.2d 1452, 1474 (2d Cir. 1988), *rev'd in part sub nom on other grounds, Pavelic & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989); accord, *Cross & Cross Properties v. Everett Allied Co.*, 886 F.2d 497 (2d Cir. 1989); *Greenberg v. Hilton Int'l Co.*, 870 F.2d 926 (2d Cir. 1989). The Ninth Circuit in this case has taken a different tack, lumping together laymen and lawyers and requiring undefined levels of "objective" competence from each. While both the subjective and objective approaches would require the imposition of sanctions on represented parties who knowingly (or recklessly) misuse the federal courts, conceal facts or present inaccurate papers, only the latter would countenance sanctions against clients who have acted mistakenly but in good faith.

There are, we submit, sound reasons to apply a less stringent standard to clients. *First*, the principal purpose of amended Rule 11 is to deter litigation misconduct while avoiding the potential to chill the legitimate assertion (or defense) of claims in federal court. Lawyers properly may be expected to sort the wheat of the legitimate from the chaff of the inaccurate. Thus, in the case of lawyers, the use of Rule 11 is likely to deter more than to chill. See, American Judicature Society, *Rule 11 in Transition, The Report of the Third Circuit Task Force on Federal Rule of Civil Procedure 11* 84-85 (Burbank, Reporter 1989). The opposite is true, however, for clients, for whom the added burden of sanctions in the event they fail to conform to undefined and highly variable objective standards adds a chill incommensurate with any benefits associated with such a rule.

*Second*, courts are peculiarly the province of judges and lawyers, not laypersons. When a party plaintiff (voluntarily) or a party defendant (involuntarily) finds herself in federal

court, she is likely to be unfamiliar with both the requirements and the protocol of the legal process. Nevertheless, our system of justice *encourages* litigants from all walks of life to seek redress of important grievances in the courts; most fundamentally, it encourages participation in an adversary process to arrive at the truth. The punishment of bad faith and lies is consonant with these notions; the punishment of simple mistakes is not. Many traditional areas of courtroom jurisprudence – for example, the laws of perjury and of absolute and qualified immunities for testimony – reflect this critical distinction.

*Third*, the costs to litigants and the judicial system associated with the application of a variable objective standard of reasonableness to represented parties dwarf its prospective benefits. As the Ninth Circuit implicitly acknowledged, its proposed standard would vary “under the circumstances.” Thus, what is objectively reasonable for a plaintiff with a third grade education presumably would differ from that which is objectively reasonable for a Certified Public Accountant (with all the myriad variations required to evaluate the behavior of people from all walks of life, with all levels of sophistication and education). The costs which would be imposed on courts to undertake an investigation into those circumstances is significant, and assuredly would lead to the type of “satellite litigation” under Rule 11 that the Advisory Committee cautioned courts to avoid. *Federal Rules of Civil Procedure: Amendments to Rules*, 97 F.R.D. 165, 201 (1983) (Fed. R. Civ. P. 11 Advisory Committee Note). From the perspective of both court and litigant, the certainty and simplicity of holding clients to one understandable common denominator – good faith – makes sound practical and economic sense, and comports with the overarching mandate of Federal Rule of Civil Procedure 1 that the federal rules “shall be construed to secure the just, speedy and inexpensive determination of every action.”

*Finally*, the Rule 11 standard adopted by the Ninth Circuit raises serious questions regarding the scope of judicial power and rulemaking authority. Such power must derive either from the inherent authority of inferior courts or the authority vested by Congress in this Court under the Rules Enabling Act, 28 U.S.C.A. § 2072 (West Supp. 1990). It is by now settled that “inherent powers” are limited to sanctions for bad faith. And, under the Enabling Act, federal procedural rules may not confer substantive rights on parties at odds with applicable federal or state laws, nor may they “abridge, enlarge or modify” substantive rights. 28 U.S.C.A. § 2072(b). Thus, expanding the Rule to reach clients who, though negligent, act in good faith, not only fails to serve a salient purpose, but also raises serious concerns regarding the power to allocate the “burdens” of litigation through judge-made rules.

## ARGUMENT

### A. The Application of a Negligence Standard to Represented Parties Will Chill More Than It Will Deter

To properly interpret the text of Rule 11, it is important to consider its underlying purpose – to police the professional “guild” of attorneys who practice in the federal courts and to promote standards of competence in the conduct of litigation in those courts. Thus, commentators have stated that the “purpose[s] of the [1983] amendment [are] to create a higher standard of attorney behavior,” Marcus, *Reducing Court Costs and Delay: The Potential Impact of the Proposed Amendments to the Federal Rules of Civil Procedure*, 66 *Judicature* 363 (1983), and “to elevate the standards of practice.” Rothschild, *Rule 11: Stop, Think and Investigate*, 11 *Litigation* 13, 54 (Winter 1985).

Lawyers, as professionals and officers of the court, are expected to conform to a minimum level of competence. If they fall below that level, their conduct is a proper concern of the courts, regardless of whether a particular attorney acted in bad faith or for an improper purpose:

[Rule 11's] standards are based on an analysis of the nature of the professional relationship. Historically, being a member of a profession has meant that an individual is some type of expert, possessing knowledge of high instrumental value such that the members of the community give the professional the power to make decisions for them. In the legal profession, the community has allowed the profession the right of self-regulation.

Section of Litig., American Bar Ass'n, *Sanctions: Rule 11 and Other Powers* app. at 202-03 (2d ed. 1988). That right of self-regulation includes the imposition of stringent academic requirements, a rigorous bar examination, continuing legal education and the power to mandate standards of professionalism in the filing of pleadings and to levy sanctions for the failure to comport with those standards.<sup>23</sup>

It is, however, another matter entirely to impose sanctions on represented parties who fail to live up to court-imposed standards of professionalism. Represented clients generally are *not* professionals; indeed, the realm of courtroom, judge and jury is as alien to the average litigant as quantum mechanics is to the average lawyer. Consequently, imposing on laypersons standards of professional competence is more likely to confuse than enlighten and, in all events, is unlikely to alter behavior. Thus, so long as they act in good faith and tell the truth, parties should be entitled to rely on the advice of counsel as to whether they need to do more to verify facts or take other steps before, *e.g.*, initiating (or answering) a complaint. Indeed, the *duty* properly lies on counsel under Rule 11 to render such direction. See American Judicature Society, *Rule 11 in Transition, The Report of the Third Circuit Task Force on Federal Rule of Civil Procedure 11* 30-31 (Burbank, Reporter 1989) (assuming that "if sanctions are imposed, they will be imposed on the lawyer. . . . Clients who are not lawyers are not bound by the rules of professional

<sup>23</sup> Our discussion of the power of the judiciary to levy sanctions is set forth at pp. 41-46, *infra*.

ethics."').<sup>24</sup> Cf. *Slane v. Rio Grande Water Conservation Dist.*, 115 F.R.D. 61, 63 (D. Colo. 1987) (refusing to "hold laymen responsible for fees, when it is apparent that competent counsel would have advised them that their claims are without merit."').

As officers of the court, lawyers may be expected to act as its "gatekeepers."<sup>25</sup> In that function,

<sup>24</sup> The *Lawyers' Manual on Professional Conduct* notes that, in most Rule 11 cases, the lawyer alone is sanctioned:

This may be in recognition of the lawyer's ethical duty not to prosecute frivolous claims [see Model Code of Professional Responsibility DR 7-102 (1980) and Model Rule of Professional Conduct, Rule 3.1 (1989)], or perhaps reflects the implicit view that the lawyer bears greater responsibility because the client has entrusted the case to him.

[Manual] Law. Man. on Prof. Conduct (ABA/BNA) 61:160 (1988).

<sup>25</sup> The concept of a "gatekeeper" in economic literature refers to a screening or policing function performed by someone who, for one reason or another, possesses the ability to prevent another's misconduct by withholding his cooperation. See generally, Kraackman, *Gatekeepers: The Anatomy of a Third Party Enforcement Strategy*, 2 J. L. & Econ. Org. 53 (1986). We use the term here in a similar, but not identical sense. Lawyers are, because of their position and expertise, both necessary for the judicial process to function and well-situated to prevent abuse — provided that they have incentives to do so. The latter obviously is somewhat tricky in the sense that attorneys are *paid* by and serve the interests of the very clients whose conduct they are asked to police and whose incentives may be to *violate* ethical or legal standards in order to advance their position in litigation. Compare T. Parsons, *A Sociologist Looks at the Legal Profession*, in *Essays on Sociological Theory* 370, 384 (1954) ("The lawyer functions as a kind of buffer between the illegitimate desires of his client and the social interests.") On the other hand, concern for reputation and other non-monetary values provide a counter-incentive. See Gilson, *The Devolution of the Legal Profession: A Demand Side Perspective*, 49 U. Md. L. Rev. \_\_\_\_ (forthcoming) at text accompanying notes 35-41. More important, so do rules, such as Rule 11, which punish attorneys for failing to act appropriately as "gatekeepers." Gilson, *supra*,

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counsel has the duty to ensure that only legally and factually plausible claims enter the courtroom. But lawyers owe duties to their clients as well,<sup>26</sup> not the least of which is to take *responsibility* for the gatekeeping function. While lawyers are trained to discern tenable from tenuous claims, laypersons are not. Laypersons are encouraged to hire lawyers,<sup>27</sup> and therefore should be able to rely on their advice as to what pre-filing investigation is prudent.<sup>28</sup>

To illustrate, consider whether, if the Ninth Circuit's standard had been the law prior to the initiation of the underlying action, Business Guides would have behaved any differently; would Mr. Lambe have understood that "objective" reasonableness required him (at least in one court's opinion) to conduct a telephone check to confirm the accuracy of a business record? Petitioner submits that, by definition, a party

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text accompanying notes 79-96. While applying Rule 11 to clients can serve some prophylactic purpose, such enforcement is likely to be less cost-efficient simply because clients are less likely to understand what is required of them — particularly where the offense has no element of intended abuse associated with it.

<sup>26</sup> See Section of Litig., American Bar Ass'n, *Sanctions: Rule 11 and Other Powers* app. at 203 (2d ed. 1988) (noting lawyers' duties to clients of loyalty, diligence, competence and candor, as well as lawyers' duties to the legal system and legal profession.)

<sup>27</sup> Compare *Spainhower v. United States*, 469 U.S. 1193 (1985) (approving appointment of "shadow counsel" for *pro se* defendant).

<sup>28</sup> Indeed, the Chief Magistrate in this case found "force" to Mr. Lambe's testimony that:

Business Guides relied on Finley, Kumble to determine what evidence they were going to present and what facts they would bring to the Court's attention because they're the professionals.

(Pet. App. 60a) As Finley Kumble's chief lawyer on the case testified, it was his belief and he advised his client that Business Guides' case was meritorious even after the four seeds had been withdrawn by Mr. Lambe. See note 14, *supra*.

acting in good faith *does* attempt to act reasonably in commencing (or defending) a lawsuit.<sup>29</sup> It has an added incentive to do so: if the party brings a meritless case it must pay its own costs for nothing. Punishing that party for what someone else believes it should have done will not serve to alter behavior (except, perhaps, by over-detering people from

<sup>29</sup> Mr. Lambe's good faith presumption that his company's business records were accurate should not be surprising. Under Federal Rule of Evidence 803(6), documents "kept in the course of a regularly conducted business activity" are not excluded by the hearsay rule, even though the declarant may be available as a witness. The Advisory Committee on Proposed Rules has explained:

The element of unusual reliability of business records is said variously to be supplied by . . . actual experience of business in relying upon them, or by a duty to make an accurate record as part of a continuing job or occupation.

Fed. R. Evid. 803(6) Advisory Committee Note. In another context, this Court also has made observations pertinent to the instant case:

The routine of modern affairs, mercantile, financial and industrial, is conducted with so extreme a division of labor that the transactions cannot be proved at first hand without the concurrence of persons, each of whom can contribute no more than a slight part, and that part not dependent on his memory of the event. Records, and records alone, are their adequate repository, and are in practice accepted as accurate upon the faith of the routine itself, and of the self-consistency of their contents. Unless they can be used in court without the task of calling those who at all stages had a part in the transactions recorded, nobody need ever pay a debt, if only his creditor does a large enough business.

*Palmer v. Hoffman*, 318 U.S. 109, 112 (1943), quoting Judge Hand in *Massachusetts Bonding Ins. Co. v. Norwich Pharmacal Co.*, 18 F.2d 934, 937 (1927).

Mr. Lambe obviously did not think to call all those (including Ms. Burdick) who "had a part in the transaction recorded" nor to "prove first hand" the accuracy of the seed list by telephone verification because he thought it proper to assume that a document he believed was routinely prepared and kept for use in the ordinary course of Business Guides' business was accurate.

bringing suits at all) or provide predictable guidelines. Accordingly, it is unlikely to deter the type of error which occurred here.

Such punishment is, however, likely to chill the assertion or defense of legitimate claims. For the party unfamiliar with the legal system and constrained by the high costs of counsel, the barriers to entering the justice system already are high. Surely the additional costs of losing a lawsuit (actual attorneys' fees plus the failure to win the relief requested) is incentive enough for parties only to assert claims they reasonably believe have merit. For those who are over-zealous in their evaluation of their legal position, we have lawyers to act as "screens." That it is how the system ought to be configured.

The foregoing considerations appear to have informed the Second Circuit's decision in *Calloway*. There, the court noted that an objective standard serves the salient purpose of deterring attorney misconduct and ensuring professionalism:

As licensed professionals and officers of the court, attorneys are expected to measure up to minimal standards of professional competence under the Rule and thus may not excuse their conduct on the ground that they were acting in good faith. . . .

*Calloway v. Marvel Entertainment Group*, 854 F.2d 1452, 1474 (2d Cir. 1988), *rev'd in part sub nom on other grounds, Pavelic & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989).

However, the Second Circuit also concluded that there are no equivalent concerns that justify the imposition of sanctions on represented parties acting in good faith, even in the case of egregious errors. In *Calloway*, the plaintiff filed sworn declarations stating that he had never affixed his signature to certain contracts at issue; that, instead, his signature had been "facsimiled" on the papers. The plaintiff later abandoned the "facsimile argument", contending instead that the contracts, though signed, had been altered. After a defense verdict, the court imposed \$100,000 in sanctions upon the attorneys and \$100,000 in sanctions against Calloway.

The Second Circuit affirmed the sanctions against the attorneys but reversed the award against Calloway, noting that Calloway had relied upon his counsel in formulating the facsimile argument, and that "Calloway did not knowingly lie in the affidavit that was written by [his former attorney and] had not acted in bad faith." *Calloway*, 854 F.2d at 1474. The Court stated:

In imposing sanctions, . . . [the District Judge] appears to have applied an "objectively reasonable" test to Calloway's conduct. That test, however, is appropriate only in evaluating the conduct of attorneys under Rule 11, not the conduct of parties represented by attorneys.

We believe that a party represented by an attorney should not be sanctioned for papers signed by the attorney unless the party had actual knowledge that filing the paper constituted wrongful conduct, *e.g.*, the paper made false statements or was filed for an improper purpose. . . .

We believe that where a represented party either did not knowingly authorize or participate in the filing of a paper that violated Rule 11, sanctions against that party are not appropriate. We further believe that when a party has participated in the filing of a paper signed by the attorney or has signed a paper himself but did not realize that such participation or signing was wrongful, then sanctions against the party are also not appropriate. . . .

- 854 F.2d at 1474 (citations omitted).<sup>30</sup>

<sup>30</sup> Since *Calloway*, courts in the Second Circuit have applied the subjective standard to represented parties. See, *e.g.*, *Greenberg v. Hilton Int'l Co.*, 870 F.2d 926, 934 (2d Cir. 1989) ("Where a party represented by an attorney is the target of a Rule 11 motion . . . the subjective good

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The Second Circuit's standard is supported by the Fed. R. Civ. P. 11 Advisory Committee Note,<sup>31</sup> which explains the circumstances in which federal courts might sanction parties under Rule 11 as follows:

Even though it is the attorney whose signature violates the rule, it may be appropriate under the circumstances of the case to impose a sanction on the client. See *Browning Debenture Holders' Committee v. DASA Corp.*, *supra*.

*Federal Rules of Civil Procedure: Amendments to Rules*, 97 F.R.D. 165, 200 (1983). In *Browning*, certain debenture holders appealed from an unfavorable judgment in a securities fraud and breach of fiduciary duty case against the defendant debenture trustee, and the trustee sought attorney's fees. *Browning* refused to impose fees against plaintiffs personally unless it could be demonstrated "that they personally were aware of or otherwise responsible for the procedural action instituted in bad faith." *Browning Debenture Holders' Comm. v. DASA Corp.*, 560 F.2d 1078, 1089 (2d Cir. 1977) (emphasis added).

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faith test applies."); *Cross & Cross Properties v. Everett Allied Co.*, 886 F.2d 497 (2d Cir. 1989); *Fischer v. Samuel Montagu, Inc.*, 125 F.R.D. 391 (S.D.N.Y. 1989); *Alberts v. Wall Street Clearing Corp.*, 1989 U.S. Dist. LEXIS 7945 (S.D.N.Y. July 13, 1989); *Quadrozzi v. City of New York*, 127 F.R.D. 63 (S.D.N.Y. 1989).

<sup>31</sup> Advisory Committee Notes are to be given weight in construing the federal rules. *Mississippi Publishing Corp. v. Murphree*, 326 U.S. 438, 444 (1946). See also Wright and Miller, *Federal Practice and Procedure*, Civil 2d § 1029 (1987):

In interpreting the rules, the Advisory Committee Notes are a very important source of information and should be given considerable weight. Although these Notes are not conclusive, they provide something akin to a "legislative history" of the rules, and carry, in addition, the great prestige that the individual members of the successive Committees, and the Committees themselves, have enjoyed as authorities on procedure.

The Second Circuit has interpreted the Committee's reference to *Browning* as evidence of the rulemakers' intent that represented parties should not be sanctioned for unintentional mistakes:

We believe that a party represented by an attorney should not be sanctioned for papers signed by the attorney unless the party had actual knowledge that filing the paper constituted wrongful conduct, *e.g.*, the paper made false statements or was filed for an improper purpose. The Advisory Committee stated that allocation of sanctions among attorneys and their clients was a matter of judicial "discretion" and that sanctions should be imposed on a party where appropriate under the circumstances. Fed. R. Civ. P. 11 Advisory Committee's Note to 1983 amendment. As guidance, the committee cited *Browning Debenture Holders Committee v. DASA Corp.*, 560 F.2d 1078 (2d Cir. 1977), a case holding that a represented party should not be held liable for wrongful conduct by attorneys unless the party was personally aware . . . or responsible for the conduct.

*Calloway*, 854 F.2d at 1474.

In the decision below, the Ninth Circuit purported to distinguish *Browning* by noting that it was an "improper purpose" (rather than a Rule 11 inquiry) case. *Business Guides v. Chromatic Communications Enters., Inc.*, 892 F.2d 802, 811 (9th Cir. 1989). (Pet. App. 19a) That is, however, precisely the point. The Advisory Committee's reference to *Browning* indicates that sanctions under Rule 11 against represented parties should be limited to conduct which otherwise would justify the imposition of attorney's fees in the exercise of the court's inherent powers — actions taken in bad faith or for an improper purpose.<sup>32</sup>

The standard enunciated by the Second Circuit and suggested by the Rules Advisory Committee effectively balances the goal of deterrence and the problem of chilling legitimate claims or defenses. The goal is accomplished through the imposition of sanctions against parties for actions brought in

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<sup>32</sup> See discussion of courts' inherent powers, pp. 43-44, *infra*.

bad faith, for an improper purpose, or with reckless indifference to the truth,<sup>33</sup> but not for simple errors committed in good faith.

**B. Punishing Bad Faith Is Consonant with the Goal of Promoting Equal Access to Justice and Seeking the Truth; Punishing Mistakes Is Not**

So important is "equal access to justice" that the words are engraved above the entrance to this Court. People of innumerable backgrounds, from all walks of life, bring suit and are sued. Some are more sophisticated, some less so. Thus, for justice (and access to justice) to be equal, it is important to avoid erecting barriers to participation in litigation. And, notions of equality aside, unconstrained participation is important for an additional reason – we wish to arrive at the truth. If a party is deterred from participating and rendering his version of the facts, the trier of fact is deprived of important clues to that truth. *Briscoe v. LaHue*, 460 U.S. 325 (1982).

The law recognizes that the imposition of liability for conduct occurring in the courtroom is likely to deter participation. Consequently, such liability is limited to the extreme circumstances of bad faith and lying. The qualified and, in most cases, absolute immunity of parties and witnesses from civil liability for their testimony in judicial proceedings dates back to the English common law. *Cutler v. Dixon*, 4 Co. Rep. 14b, 76 Eng. Rep. 886 (Q.B. 1585); *Anfield v. Feverhill*, 2 Bulst. 269, 80 Eng. Rep. 1113 (K.B. 1614); *Henderson v. Broomhead*, 4 H.&N. 569, 578, 157 Eng. Rep. 964, 968 (Ex. 1859). As stated by one 19th-century American court, in damages suits against witnesses "the claims of the individual must yield to the dictates of public policy, which requires that the paths which lead to the ascertainment of truth should be left as free and unobstructed as possible." *Calkins v. Sumner*, 13 Wis. 193, 197 (1860).

<sup>33</sup> See pp. 33-36, *infra*.

In approving the "cluster of immunities protecting the various participants in judge-supervised trials," *Briscoe*, 460 U.S. at 335, this Court has written:

The reasons for [these immunities] are also substantial. It is precisely the function of a judicial proceeding to determine where the truth lies. The ability of courts, under carefully developed procedures, to separate truth from falsity, and the importance of accurately resolving factual disputes in criminal (and civil) cases are such that those involved in judicial proceedings should be "given every encouragement to make a full disclosure of all pertinent information within their knowledge."

*Id.*, quoting *Imbler v. Pachtman*, 424 U.S. 404, 439 (1976) (White, J., concurring). In fact, the principle is so important that in *Briscoe*, 460 U.S. at 345, this Court stated that even knowingly false testimony by public officials (in that case police officers) would be immune from sanction:

As Judge Learned Hand wrote years ago: "As is so often the case, the answer must be found in a balance between the evils inevitable in either alternative. In this instance it has been thought in the end better to leave unredressed the wrongs done by dishonest officers than to subject those who try to do their duty to the constant dread of retaliation." *Gregoire v. Biddle*, 177 F.2d 579, 581 (CA2 1949), *cert. denied*, 339 U.S. 949 (1950).

These teachings in mind, surely laypersons who sincerely "try to do their duty," should not be subject to sanction for mere negligence. *Cf. Farmer v. Arabian Oil Co.*, 379 U.S. 227, 235 (1964) ("Any other practice would be too great a movement in the direction of some systems of jurisprudence that are willing, if not indeed anxious, to allow litigation costs so high as to discourage litigants from bringing lawsuits, no matter how meritorious they might in good faith believe their claims to be"); *McClatchy Newspapers v. Superior Court*, 189 Cal. App. 3d 961, 971, 234 Cal. Rptr. 702, 707 (1987) ("[u]nderlying the privilege is the vital public policy of affording free access to the courts and facilitating the crucial functions of the finder of fact. . . . The fears of chilled speech and

hindered justice are too much a part of our case law to be disregarded as unproved."); *Wekstein v. Romm*, 87 A.D.2d 867, 449 N.Y.S.2d 308, 309 (N.Y. App. Div. 1982) ("[t]he absolute privilege accorded statements made during . . . judicial proceedings promotes the search for truth.").

Of course, federal and state perjury laws do punish outright lying on the witness stand or in a declaration.<sup>34</sup> They do not, however, impose liability simply for being incorrect about the facts. It is ironic here that had Mr. Lambe taken the witness stand and testified *as to exactly the same facts set forth in his affidavit*, he would not have been subject to sanctions for perjury or under any other theory. See, e.g., *United States v. Watson*, 623 F.2d 1198 (7th Cir. 1980).<sup>35</sup> It

<sup>34</sup> 18 U.S.C.A. § 1621 (West 1984) provides in relevant part: Whoever —

(1) having taken an oath before a competent tribunal, officer, or person, in any case in which a law of the United States authorized an oath to be administered, that he will testify, declare, depose, or certify truly, or that any written testimony, declaration, deposition, or certificate by him subscribed, is true, *willfully* and contrary to such oath states or subscribes any material matter which he *does not believe to be true*; or

(2) in any declaration, certificate, verification, or statement under penalty of perjury . . . *willfully* subscribes as true any material matter which he *does not believe to be true* [commits perjury].

(Emphasis added).

Cf. Cal. Penal Code § 118 (Deering 1985); N.Y. Penal Law § 210.00-.50 (McKinney 1990); Ill. Ann. Stat. ch. 38, para. 32-2 (Smith-Hurd 1989).

<sup>35</sup> In *Watson*, the Seventh Circuit approved the following jury instruction:

The defendant may not be found guilty of perjury simply because he gave testimony which is factually incorrect. He may have given incorrect testimony because of surprise, confusion, haste, inadvertence, honest mistake as to facts,

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would be anomalous to impose sanctions upon his company under the guise of a federal rule of procedure because his counsel reduced that testimony to writing.<sup>36</sup>

There is an exception to the general rule that only willful misconduct in the courtroom may be punished: namely, recklessness. If a pleading is filed, or testimony given, with total indifference to its truth, such conduct is considered akin to willfulness.<sup>37</sup> In other areas of substantive law, this Court has imposed liability for reckless indifference to the truth. Thus, the "actual malice" standard for recovery in actions for defamation of public figures has been interpreted to include not only intentionally inaccurate statements but also statements made with "reckless disregard" of their truth. *New York Times v. Sullivan*, 376 U.S. 254, 280 (1964). See also, *Hustler Magazine v. Falwell*, 485 U.S. 46 (1988); *Philadelphia Newspapers, Inc. v. Hepps*, 475 U.S. 767 (1985). However, this Court has made clear that in the public arena, as in the courtroom, the value of free speech counsels that the line should be drawn carefully to avoid chilling valued communication:

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carelessness or negligence. As has been said, you may not find him guilty unless you find beyond reasonable doubt that the giving of false testimony was willful, and that the other elements of the offense are present.

623 F.2d at 1206 (emphasis in original).

<sup>36</sup> And, even under perjury statutes directed at written testimony, Mr. Lambe's conduct would not be implicated because he acted in good faith, believing his affidavit to be true. See, e.g., 18 U.S.C.A. § 1621(2) (West 1984) (declaration perjurious if "willfully" false); Cal. Penal Code § 118a (Deering Supp. 1990) (defining a perjurious affidavit as one containing facts which the affiant "knows to be false"). The problem presented when a federal procedural rule conflicts with federal or state substantive law is addressed in Section D of the text at pp. 47-48, *infra*.

<sup>37</sup> Compare *People v. Agnew*, 77 Cal. App. 2d 748, 753, 176 P.2d 724, 728 (1947) (under California law, a "reckless statement which is not known to be true is perjury if in truth such averment is false.")

[W]e have consistently ruled that a public figure may hold a speaker liable for the damage to reputation caused by publication of a defamatory falsehood, but only if the statement was made "with knowledge that it was false or with reckless disregard of whether it was false or not." . . . [E]ven though falsehoods have little value in and of themselves, they are "nevertheless inevitable in free debate," and a rule that would impose strict liability on a publisher for false factual assertions would have an undoubted "chilling" effect on speech relating to public figures that does have constitutional value. "Freedoms of expression require 'breathing space.' "

*Falwell*, 485 U.S. at 52 (citations omitted).

Similarly, securities fraud under 15 U.S.C. § 78j(b) and Rule 10b-5, 17 CFR § 240.10b-5, is limited to knowing or reckless misrepresentations or omissions. *E.g.*, *Sharp v. Cooper & Lybrand*, 649 F.2d 175 (3d Cir. 1981), *cert. denied*, 455 U.S. 938 (1982); *see also*, *Ernst & Ernst v. Hochfelder*, 425 U.S. 185 (1975). That is because "recklessness is considered to be a form of intentional conduct for purposes of imposing liability." *Hochfelder*, 425 U.S. at 194 n.12. However, this Court has been "quite unwilling to extend the scope of the [Exchange Act] to negligent conduct," *id.* at 214, in part because "the hazards of a business conducted on those terms are so extreme." *Id.* at 215 n.33.

Those teachings are inconsistent with the interpretation of Rule 11 adopted below. As one commentator has put it, such an interpretation of the Rule would simply be a futile and ill-advised attempt to deter "stupidity":

The message of [this] approach . . . is either "be smarter" or, at any rate, "think as I think." . . . Did the rulemakers really intend to "punish" the "abuse" of stupidity (as judges see it), and is that a worthy goal? Can stupidity be deterred by Federal Rules of Civil Procedure, and if so, will not a lot else be deterred at the same time?

American Judicature Society, *Rule 11 in Transition, The Report of the Third Circuit Task Force on Federal Rule of*

*Civil Procedure* 11 19 (Burbank, Reporter 1989). If the answer is that even a remote chance exists that legitimate claims or defenses will be deterred, the line for imposing sanctions on parties should likewise be drawn at reckless conduct. Our system of justice simply cannot afford a draconian rule that would allow parties to be sanctioned for innocent or simple-minded errors.

There can be no doubt that the application of a "knowing or reckless" standard in this case would exonerate Business Guides. In fact, the Magistrate so found when he concluded that Mr. Lambe acted in good faith and with no improper purpose. (Pet. App. 39a-40a, 53a) Mr. Lambe's self-initiated efforts to verify the accuracy of the facts submitted to the court (J.A. 187-90; R.71, 38-40), as well as his review (and edit) of the supplemental declaration submitted by his counsel on the morning of the TRO hearing (J.A. 188-89) are the very antithesis of a reckless indifference to the truth. Business Guides was not sanctioned for Mr. Lambe's "recklessness" — rather, Business Guides was sanctioned because the court believed that Mr. Lambe should have been smarter: He should have "thought" (as did the Judge's law clerk) to personally telephone the businesses listed as "seeds."<sup>38</sup> As the line of

<sup>38</sup> The Court recently held in *Pavelic & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456, 458-59 (1989), that a law firm may not be sanctioned under Rule 11 for the unreasonable conduct of one of its partners. In light of that decision, a question also arises about the propriety of sanctioning the client on *respondeat superior* grounds for the negligence of one of its employees. Although this precise issue was not raised below, it bears repeating that the Business Guides employees responsible for the preparation of the master seed list and for explaining (to former counsel and to the court) the significance of that list, were mid-level employees acting in good faith. (J.A. 160-73, 181-93) While it surely is inappropriate to sanction Mr. Lambe or Ms. Burdick personally for making mistakes while doing the best they could, it is equally inappropriate to visit on their employer a form of vicarious liability when there is no evidence that any senior executive at Business Guides was

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authorities cited above suggests, however, the use of a negligence-based standard is both unwarranted and likely to be ineffectual. There is little purpose in punishing those like Mr. Lambe (and his employer) for their failure to think like a law clerk. Any efficiency benefits from such a strict standard are vastly outweighed by the threat that valid assertions will be inhibited.

**C. The Costs to Litigants and the Courts Associated with the Application of the Objective Standard of Reasonableness Far Outweigh the Benefits of Such a Standard**

In determining the reach of Rule 11, the Court should also consider the mandate of Federal Rule 1: The rules "shall be construed to secure the just, speedy and inexpensive determination of every action." As Judge Wisdom stated in *Woodham v. American Cystoscope Co.*, 335 F.2d 551, 557 (5th Cir. 1964), "the force of this first and greatest of the Rules should not be blunted by district court's [use of] inappropriate over-rigorous sanctions." But the force of Rule 1 would be blunted by the unwarranted use of Rule 11 to require that laypersons act within the vague parameters of "objective" reasonableness. The Ninth Circuit understandably did not attempt to provide guidance for such laypersons in its opinion below, for it is difficult if not impossible to establish "minimal standards of competence" for parties. *Calloway v. Marvel Entertainment Group*, 854 F.2d 1452, 1474 (2d Cir. 1988), *rev'd in part sub nom on other grounds, Pavelic & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989). In fact, the Ninth Circuit addressed the issue by adopting the view that objective reasonableness should vary "under the circumstances." *Business Guides v. Chromatic Communications*

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aware of their mistakes. Indeed, the record below indicates that all of the involved personnel at Business Guides believed in good faith that respondents had copied the Directory. (J.A. 180, 190, 198)

*Enters., Inc.*, 892 F.2d 802, 810 (9th Cir. 1989). (Pet. App. 18a)

But such vague guidance requires parties to guess – and courts to decide – objective reasonableness on an *ex post*, case-by-case basis. Because the objective standard would vary from, for example, the possibly "mentally ill" litigant in *Calloway*, 854 F.2d at 1465, to the defendant with a second grade education, to the sophisticated businessperson and frequent litigant, the decision in most cases would be rendered without the benefit of useful precedent. The more than 600 decisions addressing the impact of the objective requirement of amended Rule 11 as applied to *attorneys*, Schwarzer, *Rule 11 Revisited*, 101 Harv. L. Rev. 1013 (1988), is indicative of the scope of inquiry and analysis which would be required to delineate objective reasonableness for represented parties.<sup>39</sup> Such uncertainty exacerbates the already acute problem of non-uniformity under the Rule,<sup>40</sup> and will promote lengthy (and costly) factual inquiries in each Rule 11 proceeding. While "some variation in the application of a standard based on reasonableness" may be inevitable, *Cooter & Gell v. Hartmarx Corp.*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 2447, 2460 (1990), such variation in the case of parties can and should be minimized through use of a good faith test. Moreover, imposing a "good faith" standard will simply shift the focus back to counsel, where it properly belongs, except in cases where parties have

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<sup>39</sup> See C. Shaffer & P. Sandler, *Rule 11: Bright Light, Dim Future, in Sanctions: Rule 11 and Other Powers* 8 (2d ed. 1988) (arguing that wide disagreement over the application of putatively objective standards has undermined any advantage gained by the amended rule).

<sup>40</sup> See, Note, *A Uniform Approach to Rule 11 Sanctions*, 97 Yale L.J. 901, 902, 913 (1988) (Non-uniform Rule 11 decisions "have created an impression of arbitrariness. . . . Fairness requires the legal system to apply uniform standards to those who are similarly situated.").

set out to abuse the judicial process in some cognizable fashion.<sup>41</sup>

By contrast, attempting to determine "objective reasonableness under the circumstances" will require (as in this case) precisely the type of extended "satellite" proceedings which the Rules Advisory Committee admonished courts to avoid. *Federal Rules of Civil Procedure, Amendments to Rules*, 97 F.R.D. 165, 201 (1983) (Fed. R. Civ. P. 11 Advisory Committee Note). Cf. Wright and Miller, *Federal Practice and Procedure*, Civil 2d § 1332 (1990) ("There is little question that increasing amounts of litigation over the administration of Rule 11 would frustrate one of the central, stated goals of the rule, the more effective operation of the pleading regimen." (quoting from Advisory Committee Note, 97 F.R.D. at 201)). Something has gone wrong where, as here, three full evidentiary hearings are conducted under the auspices of Rule 11, and when, in one of them, the district court's law clerk must take the stand to detail the factual investigation *he*

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<sup>41</sup> Focusing on bad faith conduct makes evident sense from a deterrent standpoint. As discussed in text, *supra*, a client may reasonably expect to profit from making knowingly false statements, or from pursuing litigation for improper purposes, such as delay or harassment. Thus, Rule 11 *should* be applied to clients who are guilty of that type of intended offense. On the other hand, it is hard to see how a party reasonably would expect to gain from being inept. Assuming that a party believes in good faith in the soundness of her position, she will expect to gain by presenting facts that are persuasive, not the opposite. Furthermore, she must pay her own costs in any event and, if she is the defendant, potentially suffer a judgment.

Thus, the legal system does enough if it focuses its "policing" attention on clients who seek to misuse the system – which is the only substantial danger they present. Lawyers can (and should, *see* note 25 and accompanying text, *supra*) be relied upon to make sure that facts are fairly disclosed and that only legitimate claims are presented by instructing well-meaning but often unsophisticated or over-zealous clients before filing and throughout the course of litigation.

undertook. (R.60, 16-18) Surely the rulemakers did not contemplate this type of proceeding, which moves beyond "satellite" proceedings and becomes, in essence, an entirely separate trial, pitting a party against both his attorney and the court (and against an undefined standard of court-imposed professionalism).

In addition to the costs involved in a particular case, the *systemic costs* associated with using an objective standard for represented parties are substantial. An expansive interpretation of the rule, as adopted by the Ninth Circuit, obviously will promote its increased invocation (or, worse, attempted invocation). After all, if there is a way to shift litigation costs to the other side or to render one's adversary "gun shy," the temptation to do so will be great – particularly if litigation resources are unequal. The added costs to litigants to comply with vague and unpredictable pre-filing requirements, as well as the added costs to courts which, perforce, will be called upon to address more and more sanction requests,<sup>42</sup> are incommensurate with the tenuous benefits<sup>43</sup> of such an expanded approach to the rule. That is particularly true since counsel remain subject to sanctions if their conduct falls below expected levels of competence – which is what ought to animate the proper use of Rule 11 in all events. *See* Schwarzer, *Rule 11 Revisited*, 101 Harv. L. Rev. 1013, 1025 (1988) (suggesting that "with the focus not on what the parties are doing to each other but on whether the lawyers are abusing the litigation process, rule 11 enforcement will move from private compensation to serving the larger interest of the judicial process.").

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<sup>42</sup> For instance, use of an objective standard may portend the routine accompaniment of Rule 56 motions with a request for sanctions under Rule 11. After all, summary judgment under the federal rules requires a finding that the uncontested (or irrefutable) facts do not support an asserted claim or defense as a matter of law. *E.g. Matsushita Electric Industrial Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 586-87 (1986); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 251-52 (1986). But shouldn't uncontested facts have been apparent at the outset or at least after limited discovery?

<sup>43</sup> *See* pp. 21-30, *supra*.

**D. A Rule of Procedure Imposing Sanctions on Laypersons for Negligent Mistakes Would Exceed Both the Inherent Authority of the District Courts and the Power Delegated to this Court by Congress under the Rules Enabling Act**

Interpreting Rule 11 to permit represented parties to be sanctioned for good faith mistakes would violate the Rules Enabling Act.<sup>44</sup> Specifically, petitioner submits that the outer limits of this Court's independent power to establish rules affecting the incentives and burdens of litigation are (a) its inherent power to regulate the conduct of litigation, a power which has been held to be confined to intentional or bad faith conduct, *e.g.*, *Roadway Express v. Piper*, 447 U.S. 752 (1980), and (b) its power to establish professional standards of conduct for the bar in matters pending in federal court.

Rule 11, as interpreted below, transgresses those limits in two respects: *First*, it reallocates the costs and risks of litigation in a manner not approved by Congress including, but not limited to, the *de facto* approval of fee-shifting beyond the limits authorized by Congress; *second*, it effectively creates a federal tort of negligent litigation practice and/or expands existing state statutory or common law torts of malicious prosecution and abuse of process.

As we have explained above, there simply is no need to interpret Rule 11 to reach negligence by represented parties in

<sup>44</sup> The Enabling Act provides:

- (a) The Supreme Court shall have the power to prescribe general rules of *practice and procedure*. . . .
- (b) Such rules shall not abridge, enlarge or modify any substantive right.

28 U.S.C.A. § 2072 (West Supp. 1990) (emphasis added). The Act sets forth two separate limitations on the rulemaking powers delegated by Congress to the Court. *First*, the Court cannot promulgate substantive laws. *Second*, any rules promulgated (whether considered substantive or procedural), may not alter existing substantive rights. See *Burlington Northern R.R. Co. v. Woods*, 480 U.S. 1, 5 (1987).

order to adequately regulate the conduct of litigation. So long as courts have plenary power over the federal bar and may sanction any conduct which is carried out (by counsel or by a party) in knowing or reckless disregard of their litigation responsibilities, no legitimate regulatory or process function is served by permitting courts to sanction the good faith actions of represented parties. Doing so can be justified only as a decision to alter the litigation risk/reward calculus – a function heretofore scrupulously and appropriately left to the legislative branch. See *Alyeska Pipeline Co. v. Wilderness Soc'y*, 421 U.S. 240, 247 (1975); *Roadway Express*, 447 U.S. at 759-61.

**1. Rule 11 as Interpreted by the Ninth Circuit Reallocates the Costs and Risks of Litigation in a Manner Not Authorized by Congress**

Our argument that Rule 11, as construed below, violates the Enabling Act proceeds from two premises which we believe to be clearly established: *First*, that it is the prerogative of the legislative, not the judicial, branch to establish and allocate the "burdens of litigation", *Alyeska*, 421 U.S. at 247, including, specifically, the imposition of costs in the form of attorneys' fees, *id.*; and, *second*, that the "inherent power" of a court to impose sanctions in the form of dismissal (*Link v. Wabash R.R. Co.*, 370 U.S. 626 (1962)) or costs (*Roadway Express, Inc. v. Piper*, 447 U.S. 752 (1980)), is restricted to instances of bad faith or other similar/willful conduct. *Roadway Express*, 447 U.S. at 765-66; *Hall v. Cole* 412 U.S. 1 (1973); *Zambrano v. City of Tustin*, 885 F.2d 1473, 1478 (9th Cir. 1989).

From those two underlying principles, we take it also to be settled that while courts plainly have the authority to regulate the *process* of litigation, see, *e.g.*, 28 U.S.C. § 2072, that power is still constrained by principles of separation of

powers<sup>45</sup> and by the limits of what is actually *necessary* to regulate the conduct of practice before the federal courts. It is no answer to those observations to recognize that this Court has been delegated the power to establish rules of procedure – which it plainly has – or even that Rule 11 is, in general, a valid exercise of that authority. *See generally, Sibbach v. Wilson*, 312 U.S. 1 (1941); *Hanna v. Plumer*, 380 U.S. 460 (1965). Despite the authority of the Rules Enabling Act, we think it clear that the Court could not simply establish a rule, for example, creating a routine right to attorneys' fees for parties prevailing on a summary judgment motion. *Compare Alyeska*, 421 U.S. at 240.<sup>46</sup> The reason is not that such a rule

<sup>45</sup> As the Court recently observed in *Mistretta v. United States*, \_\_\_ U.S. \_\_\_, 109 S. Ct. 647, 658 (1989):

This Court consistently has given voice to, and has reaffirmed, the central judgment of the Framers of the Constitution that, within our political scheme, the separation of governmental powers into three coordinate Branches is essential to the preservation of liberty.

In *Mistretta*, the Court upheld the constitutionality of sentencing guidelines promulgated by the Sentencing Guidelines Commission pursuant to a specific delegation of power by Congress under the Sentencing Reform Act of 1984, 18 U.S.C. §§ 3551 *et seq.* In large part, the Court's decision was based on the fact that the "powers [of the Sentencing Commission] are not united with the powers of the Judiciary in a way that has meaning for separation of powers analysis." 109 S. Ct. at 665. Indeed, the Court noted that it would "express no opinion about whether, under the principles of separation of powers, Congress may confer upon a court rulemaking authority such as that exercised by the Sentencing Commission." *Id.* at 666 n. 20 (emphasis added). Here, rulemaking authority is exercised by the Court under the Enabling Act, not by an independent agency, and thus, unlike *Mistretta*, the proper authority of the Branches is directly at issue.

<sup>46</sup> Similarly, we question whether it would be permissible for this Court, by rule, to create or abrogate state-created attorneys' fee provisions in diversity cases. *Alyeska*, 421 U.S. at n.31. *See also, People of Sioux County v. National Surety Co.*, 276 U.S. 238, 243 (1928).

could not be articulated as a matter involving process values, *compare, Hanna* 380 U.S. at 463-66, but that its implementation would so plainly alter the relationship of litigation benefits and burdens – a matter that has been recognized as peculiarly legislative. *Alyeska*, 421 U.S. at 247; *compare Kaiser Aluminum & Chem. Co. v. Bonjorno*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 1570, 1576 (1990).<sup>47</sup>

The fact that courts have been held to possess certain "inherent powers" over the conduct of litigation is entirely consistent with our point. Those powers, as this Court has observed, are limited to matters that are necessary "to the exercise of the judicial function" (*United States v. Hudson*, 7 Cranch 32, 34 (1812)) or to actions which a judge must take to protect "the due and orderly administration of justice and . . . the authority and dignity of the courts . . . ." *Cooke v. United States*, 267 U.S. 517 (1925). "Because inherent powers are shielded from direct democratic controls, they must be employed with restraint and discretion." *Roadway Express*, 447 U.S. at 764. In *Roadway Express*, this Court recognized that the use of such powers to impose sanctions in the form of fees would appear to be contrary to the Court's holding in *Alyeska*. The Court held, however, that "that rule does not apply when the opposing party has acted in bad faith." *Roadway Express*, 447 U.S. at 765-66. The Court, in fact, quoted a

<sup>47</sup> Permitting this kind of "fee shifting" would also alter balances struck by Congress in deciding whether and how to permit the imposition of fees in particular circumstances. *See e.g., Hays v. Sony Corp. of America*, 847 F.2d 412, 418 (7th Cir. 1988) (Rule 11 no more a "fee-shifting statute" than it "defines a new form of legal malpractice"); *Gaiardo v. Ethyl Corp.*, 835 F.2d 479, 483 (3d Cir. 1987) ("Rule 11 should not be viewed as a general fee shifting device."). *See also, Bradley v. School Board*, 416 U.S. 696 (1974); *Newman v. Piggie Park Enter., Inc.*, 390 U.S. 400, 402 (1968).

The availability of attorneys' fees to certain copyright litigants at the discretion of the court is not relevant to the analysis here. Whether or not Rule 11 may be invoked against parties acting in good faith cannot be dependent on the nature of the particular underlying claim. *Cf. Roadway Express*, 447 U.S. at 752, where the Court specifically noted that it would be inappropriate to import statute-specific considerations into the substance-neutral provisions of 28 U.S.C. § 1927.

portion of its opinion in *Alyeska* which had acknowledged the "inherent" judicial power to

assess attorneys' fees for the "willful disobedience of a court order . . . as part of the fine to be levied on the defendant" . . . ; or when the losing party has "acted in bad faith, vexatiously, wantonly, or for oppressive reasons . . . ."

421 U.S. at 258-59 (citations omitted).

The court in *Roadway* further noted the existence of an additional "bad-faith exception" for the award of attorneys' fees and observed that such "bad faith" can "be found, not only in the actions that led to the lawsuit, but also in the conduct of the litigation." 447 U.S. at 766 (citing *Hall v. Cole*, 412 U.S. 1, 15 (1973), and, significantly, *Browning Debenture Holders' Comm. v. DASA Corp.*, 560 F.2d 1078, 1088 (2nd Cir. 1977)).<sup>48</sup>

Thus, while inherent powers exist to control litigation abuse, interpreting Rule 11 to "reallocate the burdens of litigation" through the imposition of fees or dismissal in circumstances which would not be permissible under *Alyeska* or *Roadway* would, we submit, run afoul of this Court's authority. In saying that, we are, of course, mindful of decisions broadly construing the judicial power to control the orderly course of litigation through the imposition of sanctions for both deterrent and punitive purposes. See, e.g., *National Hockey League v. Metropolitan Hockey Club*, 427

<sup>48</sup> The reference by the Rules Advisory Committee to *Roadway* and *Browning* is similarly instructive. In its own discussion of the authority of the courts to sanction under Rule 11, the Rules Advisory Committee cited *Roadway* as establishing the courts' inherent power to "award expenses, including attorney's fees to a litigant whose opponent acts in bad faith in instituting or conducting litigation." *Federal Rules of Civil Procedure, Amendments to Rules*, 97 F.R.D. 165, 198 (1983). In some cases, the Committee sought to "expand" on this "equitable doctrine." *Id.* But the Committee's subsequent citation to *Browning* as the example of when sanctions against the client are appropriate under Rule 11, 97 F.R.D. at 200, indicates that, in the case of represented parties, it did not intend to expand the good faith limitation on the court's equitable powers. See pp. 28-29, *supra*.

U.S. 639, 642-43 (1976). However, it has never been perceived that such sanctions may be applied – notwithstanding the unequivocal language of, for example, Rule 37 – without regard to appropriate prudential limitations. Indeed, *Metropolitan Hockey Club*, which is frequently cited as the high water mark of judicial authority to impose sanctions under the federal rules,<sup>49</sup> was careful to endorse this Court's earlier holding in *Societe Internationale v. Rogers*, 357 U.S. 197 (1958), that Rule 37 may not

be construed to authorize dismissal of [a] complaint because of petitioner's noncompliance with a pre-trial production order when it has been established that failure to comply has been due to inability, and not to willfulness, bad faith, or any fault of petitioner.

357 U.S. at 212; *Metropolitan Hockey Club*, 427 U.S. at 640.

In fact, review of the court's opinion in *Societe Internationale*, suggests that the quoted limitations were not matters of mere interpretation but, at least in the case of dismissal, had potentially constitutional significance. 357 U.S. at 209-210.<sup>50</sup>

<sup>49</sup> *Metropolitan Hockey Club* has no direct applicability to this case. There, the Court held that a district court did not abuse its discretion in dismissing an action under Rule 37, where it had expressly found "respondents' flagrant bad faith and their counsel's callous disregard of their responsibilities." 427 U.S. at 643 (emphasis added). Not only is such egregious conduct absent here, but the court found that Business Guides (and its counsel) acted in complete good faith. (Pet. App. 39a-40a, 53a) To petitioner's knowledge this Court has never approved dismissal where a party has acted in good faith.

<sup>50</sup> It is not clear whether *Societe Internationale* stands for the proposition that the federal rules may not be used for the purpose of punishment (i.e., sanctions) in the case of good faith conduct. The case is capable of being read as addressing only a question of "inability" to comply. However, the Court referred several times to the petitioner's good faith, 357 U.S. at 208, 209, and further stated that the "willfulness or good faith" of the petitioner was pertinent in determining the availability of sanctions. *Id.* at 208. Business Guides submits that *Societe*

Business Guides submits that the issue here is easily – and best – solved through interpretation. However, a view of the rule that would permit courts to sanction good faith negligent conduct exceeds the bounds of this Court's authority.<sup>51</sup>

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*Internationale* should be read, consistent with the arguments made in text, *supra*, as holding that a good faith failure (not brought about by indifference or recklessness) is akin to "inability" to comply. In both instances, the party's failure is not brought about by a desire to impede the efficient search for truth but in the one case by limitations placed upon it by others and, in the case at bar, by the limitations of its own foresight. Stated otherwise, and as we have noted elsewhere, "Be smarter" is not a useful command for any legitimate purpose of compliance or deterrence. See text at p. 34, *supra*.

<sup>51</sup> The imposition of sanctions against negligent counsel does not raise the same problem, due to the Court's incontestable powers over attorneys. *Theard v. United States*, 354 U.S. 278, 281 (1956) ("the two judicial systems of courts, the state judiciaries and the federal judiciary, have autonomous control over the conduct of their officers . . ."). See also Wright and Miller, *Federal Practice and Procedure*, Civil 2d § 1332 (1990), quoting *Richardson-Merrell, Inc. v. Koller*, 472 U.S. 424, 436 (1985) ("[I]t is Congress' judgment that the district judge has primary responsibility to police [attorneys in federal court]" (emphasis in original)); Maute, *Sporting Theory of Justice: Taming Adversary Zeal with a Logical Sanctions Doctrine*, 20 U. Conn. L. Rev. 7, 21 (1987) ("Because it is extremely difficult for the bar to enforce ethical rules in the litigation context, efforts to restrain abuse must take place in the courts, through the exercise of supervisory authority over the litigation process.")

Accordingly, courts have held that lawyers may be sanctioned under the amended Rule for negligent conduct. E.g., *Zaldivar v. City of Los Angeles*, 780 F.2d 823 (9th Cir. 1986); *Eastway Constr. Corp. v. City of New York*, 762 F.2d 243 (2d Cir. 1985), *cert. denied*, 484 U.S. 918 (1987); *Brown v. McGarr*, 774 F.2d 777, 781-82 (7th Cir. 1985). Rule 11, in this context, simply becomes the mechanism to judicially supervise and enforce Model Code of Professional Responsibility DR 7-102 (1980) and Model Rules of Professional Conduct, Rule 3.1 (1989). No such power or policy considerations justify the imposition of sanctions against represented parties.

## 2. Interpreting Rule 11 to Permit the Award of Sanctions in the Form of Fees, Costs or Dismissal Would Abridge or Enlarge Substantive Rights

Under the Enabling Act, Rule 11 may not be interpreted to alter existing laws. *Burlington Northern*, 480 U.S. at 5.<sup>52</sup> But the application of Rule 11 adopted by the Court of Appeals would alter an extensive and developed body of federal and state substantive rights and obligations. These laws prohibit the imposition of sanctions for litigation conduct that is merely negligent. For example, witness immunity laws provide absolute immunity from civil suits based on inaccurate testimony.<sup>53</sup> More important, state tort laws involving conduct in judicial proceedings (e.g. malicious

<sup>52</sup> In *Daily Income Fund, Inc. v. Fox*, 464 U.S. 523 (1984), the petitioner argued that the demand requirement of Rule 23.1 created substantive rights. Although the majority did not reach the issue, Mr. Justice Stevens, in a concurring opinion, stated that since the Rule "does not clearly create such a substantive requirement by its express terms, it should not be lightly construed to do so and thereby alter substantive rights." *Id.* at 544 n.2 (Stevens, J., concurring) (citations omitted). See also, *Mississippi Publishing Corp. v. Murphree*, 326 U.S. 438, 446 (1946) (Rule 4(f) "relates merely to the manner and the means by which a right to recover . . . is enforced. . . ."); *Burlington Northern*, 480 U.S. at 8 (Rule 38 "affects only the process of enforcing litigants' rights and not the rights themselves.").

Similarly, this Court should not "lightly construe" Rule 11 to accord litigants the right to attorneys' fees and/or other "sanctions" in the guise of a procedural rule. Indeed, it is generally accepted that the award of attorneys' fees is a substantive rather than procedural right, and therefore a matter of legislative rather than judicial prerogative under the first clause of the Enabling Act. *Alyeska*, 421 U.S. at 260-262; see also, *Marek v. Chesny*, 473 U.S. 1, 35 (1984) (Brennan J., dissenting) ("The right to attorneys' fees is 'substantive' under any reasonable definition of that term.").

<sup>53</sup> See pp. 30-32, *supra*.

prosecution<sup>54</sup> or abuse of process<sup>55</sup>), generally require proof of bad faith in order to recover damages. And, statutes allowing fee-shifting likewise specifically require willful misconduct or bad faith.<sup>56</sup> A rule which effectively permits fee-shifting in the form of Rule 11 or other sanctions against a party acting in good faith plainly "alters" (and in fact directly conflicts with) these substantive principles. Accordingly, Rule 11 as interpreted by the Ninth Circuit fails the Enabling Act and hence exceeds the powers of the Court.

<sup>54</sup> See, e.g., *Berman v. Silver, Forrester & Schisano*, 549 N.Y.S.2d 125 (N.Y. App. Div. 1989); *Equity Assoc., Inc. v. Village of Northbrook*, 171 Ill. App. 3d 115, 524 N.E.2d 1119 (1988); *Interiors v. Petrak*, 188 Cal. App. 3d 1363, 234 Cal. Rptr. 44 (1987) (All requiring proof of malice in claim for malicious prosecution).

<sup>55</sup> See, e.g., *Berman v. Silver, Forrester & Schisano*, 549 N.Y.S.2d 125 (N.Y. App. Div. 1989); *Lander v. Schneider*, 154 Ill. App. 3d 875, 506 N.E.2d 735 (1987); *Coleman v. Gulf Ins. Group*, 41 Cal. 3d 782, 718 P.2d 77, 226 Cal. Rptr. 90 (1986) (All requiring proof of ulterior motive for abuse of process claim).

<sup>56</sup> See, e.g., 28 U.S.C.A. § 1927 (West Supp. 1990) which provides:

Any attorney or other person admitted to conduct cases in any court of the United States . . . who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct.

The imposition of costs under Section 1927 requires a finding of bad faith or willfulness. *Williams v. Giant Eagle Markets, Inc.*, 883 F.2d 1184, 1191 (3d Cir. 1989); *Estate of Blas Through Chargualaf v. Winkler*, 792 F.2d 858, 860 (11th Cir. 1986). Cf. Cal. Civ. Proc. Code § 128.5 (Deering Supp. 1990); N.Y. R. Trial Cts. § 130-1.1.

## CONCLUSION

For the foregoing reasons, petitioner requests that the decision below be reversed.

Respectfully submitted,

STEPHEN V. BOMSE\*  
STEPHEN N. GOLDBERG  
JOSHUA R. FLOUM  
HELLER, EHRLMAN, WHITE  
& McAULIFFE  
333 Bush Street  
San Francisco, CA 94104-2878  
Telephone (415) 772-6000  
Attorneys for Petitioner

\*Counsel of Record

Dated: August 18, 1990

**Supreme Court of the United States**

**October Term, 1960**

**BURNED GUIDER, INC.,**

*Petitioner,*

**vs.**

**CHROMATIC COMMUNICATIONS ENTERPRISES,  
INC. and MICHAEL SHIFF,**

*Respondents.*

**On Writ Of Certiorari To The United States  
Court Of Appeals For The Ninth Circuit**

**VIEW OF RESPONDENTS ON THE MERITS**

**Neil L. Swanson\***  
**Patricia A. Peters**  
**Coover, Wynn & Coover**  
**101 California Street, 16th Floor**  
**San Francisco, CA 94111**  
**Telephone (415) 482-1900**  
**Attorneys for Respondents**

**\*Counsel of Record**

**BEST AVAILABLE COPY**

**QUESTION PRESENTED**

Whether the District Court abused its discretion when, pursuant to Federal Rule of Civil Procedure 11, it sanctioned a represented party for filing false evidence in federal district court, having certified with its signature that the evidence was legitimate.

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## FEDERAL RULE AT ISSUE

The Federal Rule of Civil Procedure at issue is Rule 11, which provides in pertinent part:

Every pleading, motion, and other paper of a party represented by an attorney shall be signed by at least one attorney of record in the attorney's individual name, whose address shall be stated. . . . The signature of any attorney or party constitutes a certificate by the signer that the signer has read the pleading, motion, or other paper; that to the best of the signer's knowledge, information, and belief formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law, and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation. . . . If a pleading, motion, or other paper is signed in violation of this rule, the court, upon motion or upon its own initiative, shall impose upon the person who signed it, a represented party, or both, an appropriate sanction, which may include an order to pay to the other party or parties the amount of the reasonable expenses incurred because of the filing of the pleading, motion, or other paper, including a reasonable attorney's fee.

(As amended Apr. 28, 1983, eff. Aug. 1, 1983).

### STATEMENT OF THE CASE<sup>1</sup>

Without inquiring into the validity of what turned out to be false evidence,<sup>2</sup> a national publishing organization accused a tiny competitor of copyright infringement. Business Guides, Inc. ("Business Guides") sought, on sealed papers, a temporary restraining order and permanent injunction to shut down respondent competitor. It also sought \$2.25 million in general and punitive damages against Chromatic Communications Enterprises, Inc. ("Chromatic") and its president, Michael Shipp ("Shipp"). Fortunately, the District Court conducted its own inquiry and quickly discovered that the proffered evidence was false. After multiple hearings before a United States Magistrate and pursuant to Rule 11 it dismissed the lawsuit and imposed monetary sanctions of \$13,865.66 on Business Guides, an amount equal to Chromatic's attorneys' fees and costs.

Business Guides is a division of New York-based Lebhar-Friedman, Inc., a leading publisher of trade journals and directories, among them the directory of computer and software retailers here at issue. (J.A. 182) Chromatic is a family-run business which in 1986 was operated out of Shipp's garage in Walnut Creek, California, and is now operated out of Shipp's home in Benicia, California. (J.A. 200-201)

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<sup>1</sup> Pursuant to Supreme Court Rule 24.2, respondents submit a separate Statement of the Case to correct substantial mischaracterizations of the record in the statement filed by appellant.

<sup>2</sup> Despite sufficient indicia of its false nature, appellant inquired no further. Rather, it simply swore to the accuracy of that which was inaccurate.

In 1986, Chromatic published a directory of computer and software retailers which rivaled Business Guides' directory which sold for about half the price. In 1986 Chromatic sold the printed version of its directory for \$247.50, and its diskette version for \$595. Business Guides sold its printed version for \$389, and its diskette version for \$1,125. (J.A. 11-12) Chromatic did not escape the attention of Business Guides or its customers. In fact, the dramatic price difference brought Chromatic to the attention of Business Guides. (J.A. 25, 51) Business Guides learned of the Chromatic directory from its customers, some of whom purchased the Chromatic directory because of the lower price. (J.A. 49) Business Guides watched Chromatic for approximately two years before filing its complaint and application for immediate injunctive relief. (J.A. 51) Asserting that it was motivated to prevent Chromatic from appearing at an important trade show known as Comdex in November, 1986, Business Guides issued a "cease and desist" letter to Chromatic in late October, 1986. (J.A. 46-47, 50)<sup>3</sup>

When Shipp received Business Guides' accusations, he denied copying Business Guides' directory and offered to prove it. (J.A. 124, 128-130, 202-203) Like Business Guides, Chromatic's listings were laboriously compiled using written questionnaires and follow-up research. (J.A. 201) Shipp offered immediately and in writing to show his questionnaires and other research papers to Business Guides because they prove that all of the entries in the

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<sup>3</sup> Ironically, Shipp never planned to participate in the 1986 Comdex show, a fact about which appellant never inquired.

Chromatic directory were a result of Shipp's own independent industry. Instead of taking the opportunity to examine these records, however, appellant filed this suit almost immediately on October 31, 1986. To support its application for a temporary restraining order and permanent injunction against Chromatic, appellant not only declined to check Shipp's records, it neglected to check its own, even though it had two years to prepare its case.

Business Guides has substantial experience in litigating infringement suits (J.A. 105-106, 112) and boasts of being one of the pioneers in using so-called "seeds" to detect infringers. Business Guides, like many publishers of directories, "seeded" its directory with false information. Seeds consisted of totally fictitious entries (Type A Seeds) or legitimate entries which contained intentional errors, such as misspellings or incorrect telephone numbers or addresses (Type B Seeds). A record of the seeds was compiled in a Master Seed List. Business Guides avers and Chromatic does not dispute that the practice of using seeds in directories is a common industry practice undertaken for the sole purpose of catching infringers.

Business Guides claimed that out of the "thousands of business listings laboriously compiled" and hundreds of thousands of bits of information, Chromatic copied a total of only ten. Nine were so-called "Type-B" seeds and one was a so-called "Type A" seed. Business Guides presented this evidence by declaration of its Director of Research, Michael Lambe, who was directly in charge of its seeding operation and copyright enforcement.<sup>4</sup>

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<sup>4</sup> Appellants, alternately refer to Mr. Lambe as a "junior employee" (Appellant's brief 10), and a "mid-level employee" (Continued on following page)

The significance of the seeds was not readily apparent to the District Court and The Hon. Samuel Conti's law clerk asked counsel for Business Guides to explain how the purported seeds were evidence of copying. (J.A. 121) Prompted by the Court's inquiry, appellant prepared a supplemental declaration and in the process attempted to verify the ten seeds. Mr. Lambe then conducted a cursory investigation of "easily verifiable" seeds. (J.A. 187) He briefly consulted a zip code directory and past Business Guides directories. In a matter of minutes, Mr. Lambe discovered that four of the ten seeds were indeed invalid, but inquired no further. (J.A. 187-189) Instead of verifying the remaining six, he submitted a supplemental declaration which excluded the invalid seeds but resubmitted the remaining six, unverified seeds. Remarkably, even though Chromatic had been "under investigation" by Business Guides for two years, Business Guides claims that it did not have time to verify the remaining seeds.

Understandably suspicious about the deletion of some of the seeds, and wary because Chromatic was excluded from reviewing and responding to the sealed papers, the District Court investigated the remaining seeds by telephoning the subject businesses. The Court then found that eight out of the ten listings contained

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(Appellant's brief 34, n.38). The objective facts establish that he had thirteen years of experience at Business Guides, was in charge of preparing the seed list, had the authority to institute litigation, and in fact had brought and won at least one previous infringement suit against Xerox Corp. (J.A. 53,187)

correct information about legitimate businesses, and were therefore not seeds. (Pet.App. 66a) The Court's investigation took under an hour. (Pet.App. 56a) The Court denied the Application for a Temporary Restraining Order and referred the case to the United States Magistrate for evidentiary hearings into the appellant's submission of false evidence.

The proceedings before the magistrate were conducted in camera, and Chromatic was not permitted to participate. Chromatic later learned that Business Guides offered a different explanation for the false seeds at each hearing. The Magistrate found the explanations proffered at the first two hearings preposterous. (Pet.App. 68a,71a) After those first two hearings, the Magistrate concluded that Business Guides failed to conduct the reasonable inquiry required by Rule 11 and also that it intentionally tried to cover up its failure by fabricating excuses before the Magistrate. (Pet.App. 73a)

At the third hearing, Business Guides admitted that its prior explanations to the Magistrate as to why the seeds were not seeds were not credible. It claimed that until its current counsel unraveled the puzzle of the faulty seed list, Business Guides could not explain why it contained erroneous seeds, even though Business Guides, not counsel, prepared the list. The record, however, suggests that even the third explanation is less than reliable.

Contrary to the assertion in appellant's brief that Mr. Lambe did not participate in the preparation of the seed list (Appellant's brief 10), Michael Lambe was Director of Research and in charge of the seeding process. Furthermore, Mr. Lambe stated in a declaration that he and

another Business Guides employee "forgot" that they used an unusual process in preparing these particular seeds. Suddenly in January 1987 they "remembered" the circumstances of their preparation. (J.A. 192) At the conclusion of a third evidentiary hearing, the Magistrate revised his report. He still recommended that both Business Guides and its counsel<sup>5</sup> be sanctioned under Rule 11 for failing to make a reasonable inquiry prior to filing suit. Contrary to Business Guides' continued refrain (Appellant's brief p. 15), the Magistrate never affirmatively found that Business Guides acted in good faith. Rather, the Magistrate merely concluded that he no longer believed that appellant had engaged in an intentional cover-up. (Pet.App. 48a)

Thereafter, the Court invited Chromatic to move for sanctions. (*Business Guides v. Chromatic Communications Enterprises Inc. and Michael Shipp*, 119 F.R.D. 685 (N.D. Cal. 1988) (reprinted at Pet. App. 35a-46a.) In April 1988, approximately eighteen months after this suit was filed against it, the Court unsealed the record and Chromatic was able to view the evidence offered against it. Chromatic discovered that the solitary Type A Seed listed by Business Guides, "NFR Computer Room," was planted in its directory by Business Guides itself. (J.A. 200-209). Had

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<sup>5</sup> Before the sanctions motion could be heard, counsel for Business Guides, Finley, Kumble, Wagner, Heine, Unterberg, Manley, Myerson & Casey ("Finley Kumble") filed for bankruptcy protection. By Order of the Bankruptcy Court, Chromatic withdrew its Motion for Sanctions as to Finley Kumble. Chromatic firmly believes that counsel's conduct violated Rule 11 and would not have withdrawn its Motion voluntarily as appellant insinuates. (See, e.g., Appellant's brief at p. 17)

Business Guides accepted Shipp's invitation to examine Chromatic's records, it would have found in Chromatic's files the NFR Computer Room questionnaire completed by a Business Guides employee. (J.A. 208-209; Pet. App. 29a-31a)

The only remaining seed was a Type B seed, a single misspelling of a man's name. Business Guides asserted that the proper spelling of the name was "Choi" but that it had intentionally misspelled it in its directory as "Choy." (J.A. 87, 190) Business Guides' entire lawsuit seeking, *inter alia*, an accounting, impoundment, \$750,000 in general damages, \$1.5 million in punitive damages, and endeavoring to put Chromatic out of business, rested on Chromatic's coincidental misspelling of the name as "Choy." Simply stated, the entire lawsuit hung on the evidence that, out of the thousands of listings and hundreds of thousands of pieces of information in the directory, Chromatic misspelled one name by using its most common spelling.

The District Court sanctioned Business Guides for failing to make a reasonable inquiry into its evidence before filing it with the Court. Given that after three evidentiary hearings its infringement claim proved to be utterly without merit, the Court likewise imposed the terminating sanction of dismissal. *Business Guides v. Chromatic Communications Enterprises, Inc. and Michael Shipp*, 121 F.R.D. 402 (N.D. Cal. 1988) (reprinted at Pet. App. 27a-34a, at 34a).

Relying on most of the same arguments presented here, Business Guides appealed. A unanimous panel of the Ninth Circuit Court of Appeals affirmed. *Business Guides v. Chromatic Communications Enterprises, Inc., et al.*,

892 F.2d 802 (9th Cir. 1989). Unrepentant, Business Guides now seeks this Court's sympathy for the inconvenience it has withstood throughout the appellate process. It shows no sympathy, however, for the plight of Chromatic, which, after having been wrongfully accused nearly four years ago, remains embroiled in pointless litigation. To follow the plain meaning of Rule 11 and carry out its purpose, the decision of the Court of Appeals for the Ninth Circuit should not be disturbed.

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#### SUMMARY OF ARGUMENT

Chromatic opposed Business Guides' Petition for Certiorari on the ground that Business Guides' conduct is deserving of sanctions regardless of whether an objective or subjective standard is applied. The objective standard, however, is the one mandated by the plain meaning of the Rule and best carries out its objectives. In addition, the double standard proposed by Business Guides is unworkable and unnecessary.

First, the plain meaning of Rule 11 establishes an objective reasonableness standard for the imposition of sanctions for its violation. The Rule does not differentiate between attorneys, the parties they represent, or pro se litigants. Nothing in the language of Rule 11 supports the spontaneous injection of a double, or second, standard of conduct for represented parties and for no one else. Rather, the very terms of the Rule provide that whether it is violated, and by whom, is judged according to whether the conduct is reasonable under the circumstances of the

case. Moreover, the 1983 Amendments to Rule 11 expressly deleted the "good faith" defense.

Second, applying a uniform objective standard best promotes the central purpose of deterring frivolous lawsuits without prompting satellite litigation or chilling vigorous advocacy of legitimate claims. To apply different standards to different players in litigation confuses what is and what is not sanctionable conduct. Injecting variable standards only lengthens the inquiry and requires protracted discovery and satellite proceedings. In addition, the 1983 amendments to Rule 11 were expressly intended to encourage courts to impose sanctions, a goal better accomplished by application of a predictable, uniform standard.

Third, the double standard proposed by Business Guides is unworkable and unnecessary. It is unworkable because the application of a separate standard would require a lengthy inquiry into subjective intent. Such an inquiry would prolong proceedings, collide with the attorney-client privilege and inevitably erode the attorney-client relationship. It is unnecessary because courts have the inherent power to sanction bad faith conduct. *Newman v. Piggie Park Enterprises, Inc.*, 390 U.S. 400, 402 n.4, 19 L.Ed.2d 1263, 1266 (1968).

Fourth, regardless of which standard is applied, Business Guides violated the Rule. After watching Chromatic for two years, it blindly rushed into litigation without investigating the facts upon which its purported copyright infringement claim was based. Moreover, Business Guides declined an opportunity to examine Chromatic's

records. Instead of devoting a few hours to reviewing respondent's records to determine whether or not its accusations had any basis in fact, it spent 99 hours preparing its pleadings and application for a temporary restraining order. (J.A. 102) After initiating litigation, when the district court alerted Business Guides to errors in its evidence, it did not withdraw its suit. Even after its own inquiry revealed that its evidence was not reliable, it failed to investigate further.

A reasonable litigant in Business Guides' circumstances would have eagerly examined Chromatic's records and would certainly have examined its own before swearing under penalty of perjury that a small competitor had stolen its work. Business Guides conducted none of these pre-filing inquiries, and the facts support a finding that it failed to do so because of its ambition to squash a competitor, regardless of whether the competitor had copied its directory. This is not a case in which a party was slapped with monumental sanctions for an innocent error, in spite of appellant's attempt to characterize it as such. Rather, this is a case in which the Court imposed modest sanctions against the party whose cavalier review of the facts led to the filing of a frivolous and utterly meritless lawsuit. Business Guides' failure to inquire cast a four-year pall over Chromatic's business, and needlessly consumed Court time more justly devoted to legitimate disputes. Under a subjective or objective standard, Business Guides violated Rule 11 and was properly sanctioned.

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## ARGUMENT

### A. The Plain Language And Purpose Of Rule 11 Mandate A Uniform, Objective Standard

Asserting that subjective good faith protects represented parties from the consequences of their Rule 11 violations injects into the Rule provisions that are neither stated nor contemplated, and which run counter to its central purpose: to deter the filing of groundless lawsuits. The standard more consistent with Rule 11's language and purpose, and the one supported by the vast weight of circuit authority, is that violations be judged by a uniform, objective standard of reasonableness.

#### 1. The Plain Language of Rule 11 Does Not Accommodate the Proffered Double Standard

In the first instance, Federal Rule 11, as any statute, must be interpreted according to its plain meaning. *Pavelic and LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S.Ct. 456, 107 L.Ed.2d 438 (1989). See also, Justice F. Frankfurter, *Some Reflections on the Reading of Statutes*, 47 Colum.L.Rev. 527 (1947). When the Court finds the terms of the rule or statute unambiguous, the judicial inquiry is complete. *Pavelic*, quoting *Rubin v. U.S.*, 449 U.S. 424, 430, 66 L.Ed.2d 633, 638 (1981).

The plain language of Rule 11 expressly states that it applies to attorneys, pro se litigants, and represented parties.<sup>6</sup> When any of the actors signs a paper filed in a

<sup>6</sup> Rule 11 states:

The signature of an attorney or party constitutes a certificate by the signer that the signer has read the

(Continued on following page)

federal court, the signer – an attorney, represented party or pro se litigant – certifies that it is well-grounded in fact, based on a reasonable inquiry. If the Rule is violated, sanctions are mandatory. Fed. Rule Civ. Pro. 11, Notes of Advisory Committee on Rules, 1983 Amendment (West, 1990) (hereafter "Advisory Committee Notes"); *Chevron, U.S.A., Inc. v. Hand*, 763 F.2d 1184, 1187 (10th Cir. 1985) It is thus not merely a "standard of professional competence" applicable to members of the legal profession, as asserted disingenuously (and frequently) by appellants. Rather, it is a powerful and essential means of controlling litigation and the conduct of participants in the federal judicial system. *Cooter and Gell v. Hartmarx Corp.*, \_\_\_ U.S. \_\_\_, 110 S.Ct. 2447, 110 L.Ed 2d 359 (1990).

The Rule establishes an affirmative and mandatory duty of "reasonable inquiry" by the person signing a

(Continued from previous page)

pleading, motion or other paper; that to the best of the signer's knowledge, information and belief found after reasonable inquiry, is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification or reversal of existing law, and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation . . . if a pleading, motion, or other paper is signed in violation of this rule, the court, upon motion or upon its own initiative, shall impose upon the person who signed it, a represented party or both an appropriate sanction which may include an order to pay to the other party or parties the amount of reasonable expenses incurred because of the filing of the pleading, motion or other paper, including a reasonable attorney's fee.

paper filed in federal court, both as to the veracity of its contents *and* as to the propriety of its purpose. Thus, the Rule is violated *either* if the signer has not conducted a reasonable inquiry *or* if the signer files the paper for an improper purpose, or both. See, e.g. *Townsend v. Holman Consulting Corp.*, \_\_\_ F.2d \_\_\_, 90 Daily Journal D.A.R. 9995, 9996 citing *Zaldivar v. City of Los Angeles*, 780 F.2d 823, 832 (9th Cir. 1986). Moreover, the Rules Advisory Committee observed, "If the duty imposed by the Rule is violated, the Court should have the discretion to impose sanctions on either the attorney, the *party* the attorney represents, or both . . . and the new rule so provides." Advisory Committee Notes (emphasis added). While Rule 11 readily recognizes that a represented party may be a target of sanctions, the Rule does not include any provision for a separate standard by which to judge a represented party's conduct. Yet Business Guides urges this Court to rewrite Rule 11 to allow sanctions against represented parties only where they *both* failed to conduct a reasonable inquiry *and* were motivated by subjective bad faith.

The plain language of Rule 11 simply does not accommodate appellant's strained interpretation. In fact, the Advisory Committee on the Rules<sup>7</sup> underscored that the 1983 amendments to Rule 11 specifically abandon the "good faith" formula for a more stringent standard. See *Eastway Construction Corp. v. City of New York*, 762 F.2d 243, 253 (2d Cir. 1985) *cert. denied*, 484 U.S. 918, 98

<sup>7</sup> Committee reports carry great weight in interpreting a statute. *Garcia v. United States*, 469 U.S. 70, 76, 83 L.Ed.2d 472, 478 (1984).

L.Ed.2d 226 (1987) ("Simply put, subjective good faith no longer provides the safe harbor it once did.") The Advisory Committee also noted that the more stringent standard was adopted expressly to encourage courts to impose sanctions. Advisory Committee Notes. Moreover, commentators recognize that the subjective bad faith element was abandoned with the 1983 Amendments because it proved to be "a virtually unattainable standard." A. Miller, *The New Certification Standard Under Rule 11*, 130 F.R.D. 479, 482 (1990).

Rule 11, as written, amended and interpreted in the vast majority of the federal circuits, unequivocally establishes an affirmative duty on counsel, parties, and pro se litigants alike to inquire into the facts and the law before filing. To determine whether that duty is fulfilled, the standard embraced by commentators and applied in the majority of circuits is one of reasonableness under the circumstances. Advisory Committee Notes. Miller, *Certification Under Rule 11*, at 483 ("The sufficiency of the signer's inquiry is tested against a standard of reasonableness under the circumstances. The standard is more objective and therefore more demanding . . . "); *Gaiardo v. Ethyl Corp.*, 835 F.2d 479 (3rd Cir. 1987) ("The Rule imposes an obligation on counsel and client analogous to the railroad crossing sign, 'Stop, Look and Listen.' It may be rephrased, 'Stop, Think, Investigate and Research' before filing papers either to initiate a suit or to conduct the litigation"); *Kale v. Combined Ins. Co. of America*, 861 F.2d 746, 757 (1st Cir. 1988); *Cleveland Demolition Co. v. Azcon Scrap Corp.*, 827 F.2d 984, 987-88 (4th Cir. 1987); *Thomas v. Capital Securities Services, Inc.*, 836 F.2d

866, 870 (5th Cir. 1988); *INVST Financial Group, Inc. v. Chem-Nuclear Systems, Inc.*, 815 F.2d 391, 401 (6th Cir. 1987) *cert denied*, *sub nom Garratt v. INVST Financial Group, Inc.*, 484 U.S. 927, 98 L.Ed.2d 251; *In re Ronco, Inc.*, 838 F.2d 212, 217 (7th Cir. 1988) quoting *Colan v. Cutler-Hammer, Inc.*, 812 F.2d 357, 360 n.2 (7th Cir. 1987), *cert. denied*, 484 U.S. 820 ("The test under Rule 11 is objective: litigation must be grounded in an objectively reasonable view of the facts and the law and, if it is not, the lawyer or party proceeding recklessly must foot the bill."); *O'Connell v. Champion International Corp.*, 812 F.2d 393 (8th Cir. 1987); *Zaldivar v. Los Angeles*, 780 F.2d 823 (9th Cir. 1986); *Adamson v. Bowen*, 855 F.2d 668 (10th Cir. 1988).

Business Guides, through its Director of Research, signed declarations setting forth its purported evidence of copyright infringement and thereby certified that it had conducted a reasonable inquiry into those facts, when it had not. It failed entirely to conduct any inquiry before initiating a lawsuit seeking over a million dollars in damages and with the potential and intent of putting a small competitor out of business. It failed to conduct a reasonable inquiry even after the small portion of the evidence it checked proved unreliable. Regardless of its good faith or bad faith, Business Guides violated Rule 11 and was justly sanctioned.

## 2. Rule 11's Central Goal of Deterrence Is Best Achieved by a Single, Objective Standard

The central purpose of Rule 11 is to deter the filing of groundless lawsuits. Although the Rule must be read in light of the secondary concerns that it will spawn satellite

litigation and chill vigorous advocacy, "any interpretation must give effect to the rule's central goal of deterrence." *Cooter & Gell v. Hartmarx Corp.*, \_\_\_ U.S. \_\_\_, 110 S.Ct. 2447, 110 L.Ed 2d 359, 374 (1990).<sup>8</sup>

A rule that is applied uniformly and predictably is more likely to deter frivolous suits than one which is applied erratically and unevenly. If the goal is to rid the federal judicial system of frivolous lawsuits, then the rule must sanction all those whose conduct caused them to be filed. *Pavelic & LeFlore*, 107 L.Ed.2d at 445; See, A. Untereiner, *A Uniform Approach To Rule 11 Sanctions*, 97 Yale L.J. 901, 915 (1988).

Business Guides argues that sanctions should not have been imposed because a requirement of subjective bad faith should be read into the duty of reasonable inquiry when applied to a represented party. To judge the conduct of attorneys and pro se litigants by an objective standard while applying the more lenient subjective standard to parties represented by counsel establishes a double standard of conduct. That double standard proposed by Business Guides would provide a safe harbor for a represented party from liability under Rule 11, so long as its opponent could not affirmatively establish bad faith.<sup>9</sup>

<sup>8</sup> The vast majority of circuit courts embraced the objective standard even before this Court in, *Cooter & Gell*, unequivocally established deterrence as the Rule's primary goal.

<sup>9</sup> Here, of course, Chromatic and Shipp were not allowed to participate in the hearings, and thus were given no opportunity to demonstrate such bad faith. The use of a subjective standard in such a circumstance denies the excluded party its due process right to protect its interests.

Such a standard would do more to encourage than deter frivolous lawsuits. As the Ninth Circuit recently observed, "It would ill serve the purpose of deterrence to allow . . . a 'safe harbor' for improper or unwarranted allegations." *Townsend v. Holman Consulting Corp.*, \_\_\_ F.2d \_\_\_, 90 Daily Journal D.A.R. 9995, 9997 (9th Cir. Sept. 7, 1990). Providing a safe harbor to a large corporation with substantial resources such as Business Guides would do nothing to deter it from filing groundless lawsuits. Rather, it may encourage it to risk sanctions by hastily filing suit in order to push a small competitor with limited resources, such as Chromatic, out of business.

Even if Business Guides acted without bad faith, its so-called "mistake" dragged Chromatic and Shipp into court, has kept the small company under a cloud for four years, and has consumed innumerable hours of court time. Under the circumstances, even if both parties are innocent, and appellant plainly is not, it should be Business Guides which is held accountable for the resultant costs. To hold otherwise is to victimize Chromatic and Shipp still further.

### 3. A Subjective Bad Faith Standard Impermissibly Complicates and Protracts Rule 11 Proceedings

A single, objective standard best meets Rule 11's foremost goal of deterrence without generating satellite litigation or chilling vigorous advocacy. To avoid protracted satellite proceedings, the Advisory Committee cautioned that sanctions proceedings should be limited to the record already established in the case. Here, the District Court was far more lenient: before recommending

sanctions the District Court reviewed carefully Business Guides' evidence and allowed three evidentiary hearings. Chromatic, as noted, was prevented from participating in the evidentiary hearings.<sup>10</sup> As a result, the record in this case is largely composed of documents prepared and testimony given by Business Guides' employees on behalf of Business Guides. Chromatic had no opportunity to cross-examine witnesses or impeach evidence. Despite the absence of one party, two violations were found, and sanctions imposed.

If, to recover sanctions under Rule 11, Chromatic must establish Business Guides' subjective bad faith, Chromatic would be entitled to discovery, and a due process right to be heard. Permitting discovery, and the host of procedures, abuses, and enforcement devices that commonly accompany it, would inevitably protract the sanctions proceedings. Ultimately, the sanctions proceedings would evolve into a lawsuit within the original lawsuit and impede Rule 11's goal of imposing sanctions without creating satellite litigation. Rather than encouraging courts to impose sanctions, the cumbersome, time-consuming procedure would discourage parties from

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<sup>10</sup> Had it been allowed to participate, it would have proven that the sole Type A Seed was planted in its directory by Richard Rossini, a Business Guides employee whose declaration swears that the listing was fictitious, and could only have appeared in respondents' directory through copying. The record is now clear, and the District Court found on the basis of uncontroverted evidence, that respondents obtained that listing because Mr. Rossini both ordered Chromatic's directory and completed its questionnaire in the name of that fictitious business. It is hard to consider Mr. Rossini's Declaration anything other than a blatant lie, and another violation of Rule 11, subjectively or objectively.

seeking sanctions and courts from imposing them. The language, and intent of Rule 11 is to the contrary.

It is difficult to understand how imposing sanctions for Business Guides' conduct absent an affirmative finding of its bad faith would chill vigorous advocacy of legitimate claims. Commentators have recognized the potential of Rule 11 to cool the zeal of attorneys to accept and argue novel or unpopular causes of action. See, M. Nelken, *Has The Chancellor Shot Himself In The Foot? Looking For A Middle Ground On Rule 11 Sanctions*, 41 Hastings L.J. 383, at 393 (1990). Business Guides, however, presented no novel approach to the law. Rather, Business Guides failed entirely to meet the Rule 11 reasonable inquiry requirement, and as a result of that failure filed false "evidence" in support of an utterly meritless lawsuit seeking immediate injunctive relief against and \$2.25 million in damages from a competitor. This is not an instance in which legitimate advocacy was unjustly squelched; rather, this was precisely the conduct Rule 11 is intended to prevent.

#### 4. A Double Standard of Conduct Is Unworkable and Unnecessary

Application of a double standard, that is, a subjective standard of conduct for represented parties and an objective standard of conduct for everyone else, clearly contravenes the plain language of Rule 11, its purpose, and well-settled principles of statutory interpretation. Moreover, such dual standards are unworkable and unnecessary.

The double standard is unworkable because it impermissibly and unwisely complicates the Rule 11 inquiry, thereby increasing the cost of litigation both to the judicial system and to litigants. Before any conduct could be evaluated, the initial Rule 11 inquiry would begin with a determination of whether the target of Rule 11 sanctions was an attorney, the client, or both.

Separate proceedings, on separate standards would be required and would inevitably consume more time and expense than application of a uniform objective standard.<sup>11</sup> Ultimately, such burdens would discourage courts and parties from invoking the Rule except in the most egregious circumstances, a result directly contrary to the intention of the 1983 amendments to the Rule.

Moreover, the proffered double standard is unnecessary; if the Rule's goal had been to authorize the assessment of fees only for bad faith litigation conduct, no new statutory provision would have been necessary. The federal courts have long had equitable power to award counsel fees for bad faith or oppressive tactics. *Newman v. Piggie Park Enterprises, Inc.*, 390 U.S. 400, 402, n.4; 19 L. Ed 2d, 1263, 1266 (1968); *Christianburg Garment Co. v. Equal Employment Opportunity Commission*, 434 U.S. 412, 54 L. Ed 2d, 648 (1978). The amended Rule was intended to build upon and expand the court's equitable power to award sanctions for bad faith conduct. Advisory Committee

<sup>11</sup> Furthermore, such dual proceedings would implicate the attorney-client privilege in nearly every proceeding and would create serious conflicts between counsel and his or her client.

Notes. Requiring a showing of bad faith would curtail rather than expand the scope of the Rule.

**B. A Uniform Standard Of Objective Reasonableness Comports With Federal Rules And Common Law Duty Of Care**

**1. No Other Federal Rule Applies a Double Standard**

Uniform application of a single standard of conduct is consistent with the interpretation of other federal procedural rules. Injecting a double standard of conduct under Rule 11 would subvert the intent and, in effect, revise the application of other federal rules.

For example, Rule 26(g) authorizes the imposition of sanctions for discovery abuses, and closely parallels the signing and certification requirements of Rule 11. It states that the signature of the attorney *or party* constitutes a certification that the *signer* has read the document and that to the best of the signer's knowledge, information and belief formed after a *reasonable inquiry*, it is legitimate. Like Rule 11, Rule 26(g) encourages the imposition of sanctions for abuse. The Notes of the Advisory Committee on Rule 26 observe that the duty to make a reasonable inquiry under Rule 26 is judged by an objective standard. The Committee does not suggest that a distinct standard should apply to represented parties. Advisory Committee Note to Rule 26(g).

Similarly, Federal Rule of Civil Procedure 37 allows the imposition of sanctions against parties and counsel for discovery abuses. See, e.g. *Farm Construction Services Inc. v. Fudge*, 831 F.2d 18 (1st Cir. 1987); *Chapman & Cole v.*

*Itel Container Int'l*, 865 F.2d 676 (5th Cir. 1989), *cert. denied*, \_\_\_ U.S. \_\_\_, 110 S.Ct. 201, 107 L.Ed.2d 155 (1989). It contains no requirement of subjective bad faith.

Rule 16(f) provides that if a party or party's attorney fails to obey a scheduling or pretrial order, sanctions may be appropriate. Rule 16(f), like Rule 11, expressly provides for imposing sanctions on disobedient or recalcitrant parties, their attorneys, or both, without imposing a separate standard of conduct. Notes of Advisory Committee on Rule 16. (West 1990).

Again, under Rule 38 of the Federal Rules of Appellate Procedure, which provides for sanctions for frivolous appeals, courts have applied a single standard. A single uniform and objective standard considers the individual circumstances of the case, including, where appropriate, the status of the individual signer, whether an attorney, a represented party or a pro se litigant. The framers of Rule 38 did not establish an entirely new and unwritten standard for represented parties. See, e.g., *Clarion Corp. v. American Home Products Corp.*, 494 F.2d 860, 866 (7th Cir. 1974), *cert. denied*, 419 U.S. 870; *Wood v. McEwen*, 644 F.2d 797 (9th Cir. 1981), *cert. denied*, 455 U.S. 942 (1982); *Ruderer v. Fines*, 614 F.2d 1128 (7th Cir. 1980); *Clark v. Green*, 814 F.2d 221, 223 (5th Cir. 1987). This Court should not do so now with respect to Rule 11.

**2. As Applied in Negligence Law, Objective Standard Encompasses Circumstances Relevant to Party's Conduct**

The objective standard as applied to conduct under the federal rules is the same as that applied under general

negligence and professional liability law – that of objective reasonableness under the circumstances. Business Guides argues that it is unfair to apply the objective reasonableness standard to parties in Rule 11 cases because it establishes a “standard of professional competence” for lawyers. As noted previously (at p. 13), the Rule is a means of controlling litigation in federal courts, not singularly a tool for disciplining lawyers. Nor should it become one.

As applied, the objective standard does not impose the virtual strict liability implied by appellants. Rather, the reasonableness standard takes into account factors relevant to evaluation of the alleged violation. Those factors include consideration of whether the litigant is a party, an attorney, or a pro se litigant, just as the common law negligence standard of care takes into account circumstances peculiar to the defendant, such as a mental disability, or professional qualifications or training. See, e.g. *Huffman v. Lindquist*, 37 Cal.2d 465, 473 (1951) (the standard applied to physicians “demands that a physician or surgeon have the degree of learning and skill ordinarily possessed by practitioners of the medical profession in the same locality . . . ”); Rest. 2d Torts, § 289, Comment n (A professional is required to make reasonable use of superior knowledge, skills and experience within the area of expertise.)

The objective reasonableness standard encompasses all appropriate and relevant variables, including, for example, Business Guides’ familiarity with the litigation process. Its argument that it is unjust to apply the same standard to lay persons rings hollow. Neither reason nor

precedent supports applying the unique double standard to judge conduct under Rule 11.

### C. Even Under The Second Circuit’s Standard, Business Guides Violated Rule 11

Business Guides urges the adoption of the standard of conduct articulated by the Court of Appeals for the Second Circuit in an attempt to exonerate itself from Rule 11 liability. Even under the Second Circuit approach, however, Business Guides violated the Rule.

Business Guides places primary reliance on *Calloway v. Marvel Entertainment Group*, 854 F.2d 1452 (2d Cir. 1988), reversed in part *sub nom* on other grounds, *Pavelic & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 107 L.Ed.2d 438, 110 S.Ct. 456 (1989).<sup>12</sup> Business Guides argues that *Calloway* supports its proposition that a subjective “bad faith” standard should be applied when a represented party is the target of Rule 11 sanctions, and that if that standard had been applied, Business Guides would not have been sanctioned. *Calloway* does not mandate such a conclusion. In *Calloway*, the Second Circuit purported to apply a subjective test to determine whether

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<sup>12</sup> This issue is not the first one regarding Rule 11 upon which the Second Circuit found itself isolated and ultimately reversed by this Court. The Second Circuit ruled that a voluntary dismissal acts as a jurisdictional bar to Rule 11 proceedings in *Johnson Chemical Co., Inc. v. Home Care Products, Inc.*, 823 F.2d 28,31 (2d Cir. 1987). This Court decided the opposite in *Cooter & Gell v. Hartmarx Corp.*, \_\_\_ U.S. \_\_\_, 110 L.Ed.2d 359, 375 (1990). Chromatic suggests that the Second Circuit’s imposition of a double standard is also a maverick view appropriate for reversal.

a party, ostensibly represented by counsel, violated the Rule. *Calloway* is distinguishable on its facts. The party, Mr. Calloway, besides being unrepresented in the appeal, was mentally ill and had such a tenuous grip on reality that the Court was loathe to hold him to an objective standard of reasonableness. Of course application of an objective standard with recognition of his mental incapacity would likewise result in his exoneration from sanction liability.

The Second Circuit cases following *Calloway* cited by appellants also miss the point. In *Greenberg v. Hilton International Company*, 870 F.2d 926 (2d Cir. 1989), the represented party was the target of Rule 11 sanctions in a Title VII action for gender discrimination. Although the plaintiff had a prima facie case when the suit was filed, subsequent precedent rendered her claim meritless. All of the papers filed in *Greenberg* were signed by the attorney, and not by the party. Thus, the real issue in *Greenberg* was not what standard should be applied to judge a represented party's conduct, but whether a represented party should be sanctioned under Rule 11 for the conduct of counsel in filing a lawsuit which subsequently proved to be *legally*, rather than factually, insufficient. *Greenberg* is markedly distinct from the case here, where Business Guides itself signed the declarations<sup>13</sup> under oath swearing to facts solely within the party's knowledge, expressly not matters solely within its attorney's expertise.

Similarly, in *Cross & Cross Properties, Ltd. v. Everett Allied Company*, 886 F.2d 497 (2d Cir. 1989), the defendant

<sup>13</sup> The declarations include two by Mr. Lambe and one by Mr. Rossini.

sought sanctions against a party for filing a meritless cross-complaint in complex litigation regarding a tax shelter. Again, all papers were signed by counsel. The Second Circuit held that while Rule 11 sometimes allows sanctions against a client even if he does not sign the pleadings, sanctions may not be directed against a represented client without a showing that a client has actual knowledge that filing the paper constituted wrongful conduct. *Cross & Cross* at 505, citing *Calloway* at 1474 and *Greenberg* at 939.

- The standard applied in the above cases would not excuse Business Guides' conduct. Unlike *Calloway*, Business Guides was not a mentally ill novice to the legal arena. Rather, Business Guides generally, and Mr. Lambe in particular, were pioneers in copyright infringement litigation with significant familiarity with the process. See, e.g., *Chain Store Business Guides, Inc. v. Wexler*, 79 F.Supp. 726 (S.D.N.Y. 1948). Unlike parties in *Greenberg* and *Cross & Cross*, Business Guides was sanctioned for itself signing documents swearing to facts within its own knowledge and expertise, not for counsel's certification of legal argument or analysis.

Appellant cites no cases in which a represented party was exonerated from sanctions under Rule 11 for filing false evidence under the defense that it was an honest mistake. In *Calloway* and its progeny, the parties were relatively nonculpable. Business Guides' conduct, however, would support a finding of bad faith under the *Calloway* standard.

Business Guides is a self-styled expert in enforcing its copyrights and claims to have investigated Chromatic

for two years. Suddenly, when its customers started buying Chromatic's product, Business Guides launched into litigation without adequately inquiring into whether it had grounds to do so. After the Hon. Samuel Conti's law clerk alerted Business Guides to its own inquiry into the evidence, Business Guides discovered that four out of ten seeds were false. A reasonable litigant with thirteen years of similar experience should have inquired further. It is impossible to believe that Mr. Lambe, whose job it was to oversee preparation of the seeds, did not harbor severe misgivings as to the accuracy of the seeds. He either knew they were false or recklessly relied on their trustworthiness.

These circumstances are enough to satisfy the actual malice standard in the analogous area of defamation law. It can constitute actual malice if, when faced with obvious reasons to doubt the veracity or trustworthiness of information, an individual fails to inquire further before publishing it. See e.g. *St. Amant v. Thompson*, 390 U.S. 727, 732, 20 L.Ed.2d 262, 268 (1968), citing *Curtis Publishing Co. v. Butts*, 388 U.S. 130, 170, 18 L.Ed 24 1094, 1119 (1967). If Business Guides can escape sanctions for recklessly, if not knowingly, filing false declarations swearing to non-existent evidence, when it had obvious reasons to doubt its accuracy, then Rule 11's reasonable inquiry mandate is meaningless.

#### **D. The District Court Exercised Discretion Consistent With Its Power Under The Rules Enabling Act**

The proceedings below are devoid of any challenge to the amount of sanctions imposed on Business Guides.

Now Business Guides joins Amicus<sup>14</sup> in arguing that the premise of awarding sanctions in the amount of attorney fees is a form of fee shifting and as such beyond the grant of power of the Rules Enabling Act<sup>15</sup> under the reasoning of *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U.S. 240, 44 L.Ed.2d 141 (1975). Its reliance on *Alyeska*, however, is misplaced.

In *Alyeska*, this Court rejected the judicial creation of a prevailing party's right to attorney fees under a private attorney general concept, where no statute authorized the award. To violate the Rules Enabling Act, under the reasoning of *Alyeska*, Rule 11 would have to mandate an award of full attorneys' fees to the prevailing party. It does not. Rule 11, like other federal procedural rules,

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<sup>14</sup> Amicus, Public Citizen, is a consumer advocacy group. One presumes that to further its cause of consumer protection it sometimes advocates creative interpretation and application of the law. It may also be the case that when it files suit against an entity such as a manufacturer, most of the evidence it will ultimately require to prove its case will have to be discovered from defendant. Although not stated, respondents assume that it fears having to pay attorney fees if its creative view of the law is rejected and discovery ultimately renders its claim groundless. Affirming the Ninth Circuit here does not lead to such a result. This is not a case where the litigant was sanctioned for advocating a creative view of the law or where later-discovered evidence proved the claim unfounded. Rather, it involves abuse of an established practice in copyright law in which all of the discredited evidence was in the hands of the sanctioned party.

<sup>15</sup> The Rules Enabling Act states: "(a) The Supreme Court shall have the power to prescribe general rules of practice and procedure; . . . (b) Such rules shall not abridge, enlarge or modify any substantive right." 28 U.S.C.A. § 2072.

including Rule 37, lists the award of a "reasonable attorney's fee" as one possible sanction, but leaves the choice of the most appropriate sanction to the sound discretion of the trial court. Business Guides was not sanctioned because it was not a prevailing party. It was sanctioned because it violated Rule 11 by failing to conduct a reasonable inquiry before filing a specious copyright infringement action. This Court recently observed that the central purpose of Rule 11 is to deter baseless filings in District Court. So long as courts enforce the Rule consistent with that purpose, it will be consistent with the Rule Enabling Act's grant of authority to streamline the administration and procedure of the federal courts. *Cooter & Gell* at 374.

The District Court in this case acted in accordance with the terms of Rule 11 to achieve its primary purpose of deterrence. It dismissed the lawsuit, having found, after multiple evidentiary hearings, that the evidence upon which it rested was entirely erroneous. Then, consistent with Rule 11's goal of deterring frivolous suits and needless consumption of court time, it imposed monetary sanctions against the party responsible in an amount equal to the cost to Chromatic in attorneys' fees. Conceivably it was within the Court's power to impose additional sanctions to compensate the court, and indirectly the public, for the innumerable hours wasted because Business Guides failed to devote an hour to verify its evidence. Under the circumstances, the Court exercised considerable restraint. Because the district court acted pursuant to the express terms of the Rule to achieve its legitimate procedural purpose, the sanctions award was well within its power under the Rules Enabling Act.

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## CONCLUSION

For all the foregoing reasons, the decision below should be affirmed.

Dated: September 20, 1990

Respectfully Submitted,

NEIL L. SHAPIRO\*

PATRICIA A. PERKINS

COOPER, WHITE & COOPER

*Attorneys for Respondents  
Chromatic Communications  
Enterprises, Inc. and  
Michael Shipp*

\* Counsel of Record

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No. 89-1500

Supreme Court, U.S.

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In The  
Supreme Court of the United States  
October Term, 1990

BUSINESS GUIDES, INC.,

*Petitioner,*

vs.

CHROMATIC COMMUNICATIONS ENTERPRISES,  
INC. and MICHAEL SHIPP,

*Respondents.*

On Writ Of Certiorari To The United States  
Court Of Appeals For The Ninth Circuit

REPLY BRIEF OF PETITIONER ON THE MERITS

STEPHEN V. BOMSE\*  
STEPHEN N. GOLDBERG  
JOSHUA R. FLOUM  
HELLER, EHRLMAN, WHITE  
& MCAULIFFE  
333 Bush Street  
San Francisco, CA 94104  
Telephone: (415) 772-6000  
*Attorneys for Petitioner*

\*Counsel of Record

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964  
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## I. INTRODUCTION

Respondents' brief simply highlights the issue before the Court: whether represented parties may only be sanctioned under Rule 11 when they knowingly (or recklessly) present incorrect information to the court or otherwise act in bad faith. Respondents would prefer a different case – one in which the trial court held that Business Guides, in fact, acted in bad faith. But despite respondents' attempt to characterize Business Guides' conduct as a pernicious effort to drive a small competitor out of business, the court expressly found to the contrary. (Pet. App. 48a, 53a) However mistaken Business Guides may have been in its belief that respondents copied its directory, the Chief Magistrate and district court found that Business Guides' employees – in particular Victoria Burdick and Michael Lambe – held that belief in good faith and acted accordingly.<sup>1</sup> Respondents' effort to sustain the result

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<sup>1</sup> As below, respondents argue that no good faith finding was actually made. According to respondents, "the Magistrate merely concluded that he no longer believed that appellant had engaged in an intentional cover up." (Brief of Respondents on the Merits (hereafter "R.B.") at 7) Elsewhere in their brief, respondents imply, with no support from the record, that Business Guides brought this action to drive respondents' lower-priced product out of the market. However, a careful inspection of the Magistrate's revised report reveals that, upon reconsideration, the Magistrate concluded that Business Guides had at all times acted in good faith, though – in his view – carelessly:

I agree with Business Guides that the evidence not previously before me is "absolutely fundamental" to an understanding of what transpired in preparing the TRO application. It is only now, after the many months this controversy has been pending, that I have been presented with a reasonable explanation as to how inaccurate information was originally presented to the court. I no longer believe either Business Guides or its counsel, Finley, Kumble, took part in any intentional misrepresentation or cover-up."

(Pet. App. 48a) (emphasis added) The Magistrate further stated: "I no longer believe Business Guides' actions were 'interposed for any

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below by changing the factual premise upon which it was based does not advance the resolution of the Rule 11 issue presented here.

Aside from respondents' attempt to recharacterize the record, their brief has remarkably little to say and what it does say, we suggest, is demonstrably wrong. Respondents argue principally from a supposed reading of the "plain language" of the Rule – but their reading is plainly inaccurate. See pp. 3-8, *infra*. Their attempt to deal with the policy arguments advanced by petitioner amounts to little more than the accurate but analytically unhelpful observation that the purpose of Rule 11 is deterrence (see pp. 9-13, *infra*), plus an unsupported claim that making represented parties responsible only for intentional or reckless failures somehow will complicate Rule 11 hearings (see pp. 15-19, *infra*). Neither of those arguments, nor any other matter raised by respondents, should cause this Court to apply Rule 11 to represented parties in the broad fashion endorsed by the Ninth Circuit in its opinion below. Rather, restricting application of the Rule principally to counsel is consistent with the purpose of the Rule and the respective roles of client and counsel in our legal system.<sup>2</sup>

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*improper purpose*." (Pet. App. 53a) (emphasis added) In sum, the Magistrate's revised report is not limited to a finding that there was no "intentional cover-up," as respondents contend, but also includes findings that Business Guides did not engage in any effort to "misrepresent" and did not act with an improper purpose. The district judge adopted those findings (Pet. App. 35a-46a) and the Ninth Circuit acknowledged them in its decision (Pet. App. 6a-13a). The Rule 11 findings of a district court are reviewed under an abuse of discretion standard. *Cooter & Gell v. Hartmarx Corp.*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 2447, 2461 (1990).

<sup>2</sup> While many of the "facts" highlighted by respondents are immaterial in light of the trial court's findings, Business Guides is puzzled by respondents' suggestion that Business Guides has presented "substantial mischaracterizations of the record." (R.B. 2 n.1) To the contrary, it is respondents who have asserted facts nowhere to be found in the record

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## II. ARGUMENT

### A. RULE 11 DOES NOT IMPOSE DIRECT OBLIGATIONS ON REPRESENTED PARTIES

Petitioner's opening brief explained why the policies of Rule 11 are not well served by employing the Rule to punish

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below. *First*, contrary to respondents' assertions, no evidence in the record suggests that Business Guides acted in order to drive a "mom and pop" competitor out of business. Indeed, the evidence in the record suggests that Business Guides did not act precipitously upon discovering that respondents had published a directory which appeared to contain copied material, but instead waited over a year to verify that respondents' directory contained, according to Business Guides' belief, other copied business listings. (J.A. 185-86) The Magistrate expressly found that Business Guides did not act with any improper purpose in filing and prosecuting the action below, and acted at all times with a genuine belief that it was dealing with copied material. (Pet. App. 48a, 53a) Again, the district court adopted those findings. (Pet. App. 35a-46a)

*Second*, there is no evidence in the record that Mr. Lambe had any role in preparing the 1984 master seed list or that he was ever made aware of respondents' offer to allow the inspection of respondents' business records. Whether Mr. Lambe, as director of research for several of Lebhar-Friedman's numerous publications, was a "mid-level" or (as respondents contend) a "senior" employee, the uncontroverted facts establish – and the district court found – that he acted with the sincere belief that respondents were guilty of copying when he signed his declaration. *Id.*

*Third*, respondents' suggestion that Richard Rossini's declaration was a "blatant lie" (R.B. 19 n. 10) is not only offensive, but insupportable. It is undisputed that the "NFR Computer Room" seed was wholly fictitious (the name being comprised of the initials of Mr. Rossini's daughter) but, nonetheless, appeared in respondents' directory. As of the time Mr. Rossini filed his declaration – and to this day – Business Guides has been allowed no discovery as to how its Type A seed found its way into respondents' directory. Absent such discovery, neither Business Guides nor, we submit, the district court was in a position to know whether respondents' purported explanation for the appearance of the NFR seed is

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represented parties for unintended and unknowing litigation mistakes. (See Brief of Petitioners on the Merits (hereafter "P.B.") at 21-39) Respondents largely decline to take issue with that argument. Instead, they argue that Business Guides' position is foreclosed by the "plain language" of the Rule. (R.B. 12) According to respondents, Rule 11 simply makes no "provision for a separate standard by which to judge a represented party's conduct." (R.B. 14) Thus, say respondents, what Business Guides wants is for this Court "to rewrite Rule 11" to accommodate its view of how the Rule ought to operate. (R.B. 14)

But respondents' "plain language" argument is, itself, plainly wrong. Contrary to what respondents assert, the language of the Rule (a) places *no direct obligation* of any kind on a represented party and (b) establishes *no standard* for determining when such a party may be sanctioned.

In pertinent part, Rule 11 states as follows:

[1] Every pleading, motion, and other paper of a party represented by an attorney shall be signed by at least one attorney of record in the attorney's individual name, whose address shall be stated. [2] A party who is not represented by an attorney shall sign the party's pleading, motion, or other paper and state the party's address. . . . [3] The signature of an attorney or party constitutes a certificate by

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well-founded. The fact that Business Guides was not able – absent such discovery – to respond to respondents' assertions about that matter says no more than that it remains in dispute. One thing is clear, however: Rule 11 was never intended to truncate the operation of the litigation process by allowing the peremptory dismissal of claims. Cf. *Thomas v. Capital Security Services, Inc.*, 836 F.2d 866, 878 (5th Cir. 1988).

Fourth, respondents' can only attempt to dismiss the appearance in their directories of the "Computers & Applications" Type B seed from the 1986 master seed list by arguing, again without any support from the record, that they used the "most common spelling" ("Choy"), of a name correctly spelled "Choi." Business Guides submits that that issue, too, should have been left to a jury or to the court under Rule 56, after an opportunity for appropriate discovery. *Id.*

*the signer* that the signer has read the pleading, motion, or other paper, that to the best of *the signer's* knowledge, information and belief formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law, and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation. [4] If a pleading, motion, or other paper is signed in violation of this rule, the court, upon motion or upon its own initiative, shall impose upon the person who signed it, a represented party, or both, an appropriate sanction, which may include an order to pay to the other party or parties the amount of the reasonable expenses incurred because of the filing of the pleadings, motion, or other paper, including a reasonable attorney's fee.

(emphasis added).

Unlike respondents, we read that "plain language" to say the following: According to Sentence 1, all pleadings, motions and other papers of a represented party must be "signed by at least one attorney of record." No provision is made requiring the represented party to sign such papers and that is virtually never done except in the case of affidavits (which are dealt with specifically by Rule 56(g), see p. 15 & n. 3, *infra*) or substantive discovery responses (see, e.g., Rules 33 and 36; see pp. 13-15, *infra*). In fact, Rule 11 itself expressly provides that "[e]xcept when otherwise specifically provided by rule or statute, pleadings need not be verified or accompanied by affidavit." Thus, the only time a party "signs" pleadings or other filings is when the party is appearing *in propria persona* – a circumstance expressly dealt with by Sentence 2 of the Rule.

Sentences 3 and 4 are the operative provisions of Rule 11 applied below. They provide that "the signature" on a paper constitutes a certification "by the signer" as to certain matters of fact and law and as to the lack of any "improper purpose" in filing the paper. That signature ordinarily will be that of an attorney (per Sentence 1) but it may on occasion be that of a

party, where that party appears *pro se* (the circumstance specified in Sentence 2). Finally, Sentence 4 tells us that if a paper "is signed" in violation of the Rule sanctions may be imposed upon "the person who signed it" or "a represented party" or "both."

Thus, contrary to respondents' reading of the alleged "plain language" of the Rule, the only obligations Rule 11 imposes are upon the individual attorney who signs the paper in question (*see Pavelic & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989)), or upon a *pro se* party. It is "the signer" who, by "signature," certifies that he or she has done or refrained from doing the various things specified in the Rule. (Sentence 3) Concededly, if that certificate is incorrect (*i.e.*, if the paper is "signed in violation" of the Rule), that fact may subject not only "the person who signed" it, but the signer's client to sanctions. (Sentence 4) However, again contrary to respondents' arguments, the Rule does not define any standard for determining when the client, in addition to or in lieu of his or her counsel, may be sanctioned. Rather, that is the issue to be decided here.

Respondents' attempt to read the term "party" in Sentence 3 of the Rule as if it referred to *represented* parties cannot be squared with the remainder of the sentence which makes "the signature" on a pleading or other paper the operative event. That is particularly evident since, as noted above, represented parties virtually never sign pleadings or motions.<sup>3</sup> *See Clark v. Uebersee Finanz-Korporation, A.G.*, 332 U.S.

<sup>3</sup> Insofar as "other papers" are concerned, they are signed by represented parties only in the case of certain discovery responses or affidavits. The former are not only dealt with specifically by other rules, but the Advisory Committee expressly noted that Rule 11 as revised in 1983 was not intended to apply to those responses: "Although the encompassing reference to 'other papers' in new Rule 11 literally includes discovery papers, the certification requirement in that context is governed by new Rule 26(g)." *Amendments to the Federal Rule of Civil Procedure*, 97 F.R.D. 165, 201 (1983). Similarly, Rule 56(g) provides that summary judgment affidavits are subject to sanction only when submitted

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480, 488 (1947) ("Our task is to give [a statute] the most harmonious, comprehensive meaning possible."); *Philbrook v. Glodgett*, 421 U.S. 707, 713 (1975).

Similarly, respondents' attempt to find support for their "plain language" argument in the advisory committee notes similarly runs aground on the plain language of those notes. They expressly point out that "it is the attorney whose signature violates the rule," although "it may be appropriate under the circumstances of the case to impose a sanction on the client. *See Browning Debenture Holders' Committee v. DASA Corp.*, *supra*."<sup>4</sup> That portion of the notes not only

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in bad faith. If the drafters of revised Rule 11 really contemplated creating an additional and – in respondents' view – far more expansive basis for sanctioning incorrect affidavits, it is hard to believe they would have expressed it in such an oblique fashion. *See, e.g.*, Sutherland, *Statutory Construction* § 47.16 (4th Ed. 1984) (as a matter of statutory construction, the specific controls the general).

<sup>4</sup> 97 F.R.D. at 200. The Ninth Circuit's effort to distinguish the committee's citation to *Browning Debenture Holders' Committee v. DASA Corp.*, 560 F.2d 1078 (2d Cir. 1977) is, at best, somewhat facile. While it surely is true that most pre-1983 cases imposed sanctions only in the case of bad faith, *Browning* expressly held that, in the case of parties, sanctions are available only where the particular party is responsible for, or knew of, the wrongful conduct:

[An attorney's] procedural bad faith, moreover, may not automatically be visited upon the other plaintiffs personally. Bad faith is personal, *see Hall v. Cole*, 412 U.S. 1, 5, 93 S.Ct. 1943, 36 L.Ed.2d 702 (1973). Since an award of costs or attorneys' fees based on bad faith must likewise be personal, such an award may be assessed against plaintiffs . . . only after reconsideration and such hearing as the district court finds necessary, that they personally were aware of or otherwise responsible for the procedural action instituted in bad faith. Otherwise, such awards may be assessed only against [the attorney] under 28 U.S.C. § 1927.

*Browning*, 560 F.2d at 1089.

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articulates the correct reading of the Rule, as discussed above, but flags the critical question which respondents have so neatly attempted to beg, namely: What *are* "the circumstances" under which it is "appropriate" to sanction a client under Rule 11?<sup>5</sup>

That question, we submit, cannot be answered by some contorted reading of the Rule since it is, in fact, utterly silent as to when a party may be sanctioned for its attorney's improper certification. Thus, courts must instead look to the

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The committee could have chosen any of a number of pre-1983 Rule 11 cases to describe when parties may be sanctioned, but instead chose a case carefully distinguishing between culpable (personal bad faith) and non-culpable (negligence or inadvertent participation in a frivolous action) conduct. That choice cannot be so lightly dismissed.

<sup>5</sup> In similar fashion, the advisory committee notes to amended Rule 26(g) – a rule which substantially reiterates the relevant language of Rule 11 – notes that the signature and certification requirements for both rules apply only to attorneys or to parties electing to act as their own counsel:

If primary responsibility for conducting discovery is to continue to rest with the litigants, they must be obliged to act responsibly and avoid abuse. With this in mind, Rule 26(g), which parallels the amendments to Rule 11, requires an attorney or unrepresented party to sign each discovery request, response, or objection.

97 F.R.D. at 218-219 (emphasis added); see also, *Apex Oil Co. v. Belcher Co. of New York, Inc.*, 855 F.2d 1009, 1014-15 (2nd Cir. 1988).

This Court has recognized the same point as well, albeit in other contexts. See *Cooter & Gell v. Hartmarx Corp.*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 2447, 2454 (1990) ("Rule 11 imposes a duty on attorneys to certify that they have conducted a reasonable inquiry and have determined that any papers filed with the court are well-grounded in fact, legally tenable, and 'not interposed for any improper purpose.' " (emphasis added)). Cf. *Pavelic & LeFlore v. Marvel Entertainment Group*, 110 S. Ct. 456 (1989) (signature and certification requirements pertain to individual attorneys, not their firms).

policies underlying the Rule. And, as pointed out in petitioner's opening brief, furthering those policies need not require treating clients and attorneys in the same fashion. See P.B. at 22-36.

Respondents argue that the central policy of Rule 11 is deterrence, an assertion unquestionably supported by this Court's recent opinion in *Cooter & Gell*. Yet, again, that fact no more provides an answer to the question before this Court than does respondents' reference to the Rule's "plain language." To say that Rule 11 seeks deterrence does not indicate what it seeks to deter a *client* from doing; nor, assuming that question has been answered, does it indicate whether applying an "objective" standard would be the most efficient way to achieve such deterrence – recognizing, as tort law generally does, that there are substantial social costs to over-deterrence.<sup>6</sup>

As we have argued previously, the duty of keeping the litigation vehicle on a true course is properly imposed upon counsel, who are at least ostensibly trained to direct and maneuver it. From that fact, it follows that it is counsel who should be expected to conduct whatever investigations into matters of fact and law are appropriate. That is exactly what the text of the Rule provides (except in the case of *pro se* parties who choose, for whatever reason, to act as their own counsel). Surely counsel will seek information from their clients in performing such investigations, at least as to matters of fact, which often are known only to the client.<sup>7</sup>

<sup>6</sup> See, e.g., R. Posner, *Economic Analysis of Law*, 147-51 (1986); see generally, G. Calabresi, *The Costs of Accidents* (1970).

<sup>7</sup> That allocation of responsibilities is made explicit by the advisory committee in discussing the substantially identical certification requirements of Rule 26:

The duty to make a "reasonable inquiry" is satisfied if the investigation undertaken by the attorney and the conclusions drawn therefrom are reasonable under the circumstances. . . . In making the inquiry, the attorney may rely on assertions by

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However, so long as the client is not improperly motivated and attempts to provide a full and truthful rendering of the facts as it believes them to be, it is hard to see what useful purpose is served by holding the client responsible for not thinking more correctly or fully about the possible flaws or holes in its view of the relevant events. After all, a client that is acting in good faith and not for an improper purpose wants to win (or, as a defendant, not lose) its case. Also, just as the advisory committee has aptly cautioned against invoking the perfect clarity of hindsight (*see* 97 F.R.D. at 199), deterrence is only usefully provided when the correct course of conduct can be discerned *ex ante*. Yet most often – as plainly was the case here – the only failure by the client is non-awareness, for which the only cure is to “be smarter.” That may well be an appropriate command to counsel: An attorney who is incapable of determining what is a reasonable investigation has no business serving as counsel in the federal courts, however well intentioned he or she may be. The same is not true of parties. “Be smart” is neither a useful direction to, nor an appropriate standard for, punishing a well-meaning client.<sup>8</sup>

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the client and on communications with other counsel in the case as long as that reliance is appropriate under the circumstances.

97 F.R.D. at 219 (emphasis added).

<sup>8</sup> Thus, in terms of the facts of this case, it is no answer to our arguments to note that it took the district court’s law clerk only about an hour to check the accuracy of Business Guides’ seeds. The issue, rather, is what would cause a party to question their accuracy in the first place when it has been given no reason to doubt such accuracy. That indisputably was the case prior to the time the complaint was filed. As pointed out in petitioner’s opening brief, the law as well as the world of commerce presumes the regularity of business records. *See* Fed. R. Evid. 803(b); *Palmer v. Hoffman*, 318 U.S. 109, 112 (1943).

So far as Mr. Lambe’s supplemental declaration is concerned, the facts illustrate precisely the point made in text. Assume, as the Magistrate

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The situation is very different when a client *intends* to misuse the litigation process for improper purposes, or brings litigation with no concern for its merit. *Cf. Hollinger v. Titan Capital Corp.*, 190 Daily Journal D.A.R. 11003 (9th Cir. 1990) (en banc) (holding that recklessness meets the scienter requirement for a claim under Rule 10b-5 when the danger of misleading was “so obvious that the actor must have been aware of it.”) That – and, we submit, that alone – is “the circumstance” in which it is “appropriate” to hold the client accountable. Any other standard will deter only through fear of being wrong and, thus, deter too much. *See* P.B. 21-36. Put another way, the mandate to “stop, think and investigate,” *Rothschild, Rule 11: Stop, Think & Investigate*, 11 Litigation 13 (Winter 1985), should not be transformed in the case of a client into, simply, “stop.”

Because lawyers are the appropriate gatekeepers of our courts (*see* P.B. 23-24 & n.25), amended Rule 11 rightly demands that they be held to an appropriate standard of professionalism. *Miller, The New Certification Standard Under Rule 11*, 130 F.R.D. 479, 481 (1990) (“The amended rule emphasizes the responsibilities of the attorney and reinforces those obligations by encouraging courts to impose sanctions.”); *see also* *Rothschild*, 11 Litigation at p. 54; *Marcus, Reducing Court Costs and Delay: The Potential Impact of the Proposed Amendments to the Federal Rules of*

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found, that it was unreasonable for Mr. Lambe to have assumed the validity of Business Guides’ other seeds once his self-generated research had called some of them into question. If that is true, what good is it to tell him “you must be careful?” Or “more careful?” Rightly or wrongly, Mr. Lambe thought that he *was* being careful. It just did not occur to him (or, we would note, to his counsel) to question the other seeds. That being the case, how will imposing sanctions for such assumed incompetence make the next incompetent client less so when it is his or her opportunity to make a mistake? That is why we have lawyers: To recognize that the thirteenth chime of the clock is not only inherently suspect itself, but that it calls into question the twelve that have preceded it.

*Civil Procedure*, 65 Judicature 363 (1983). For represented parties, on the other hand, courts should only demand that they reveal all pertinent facts (as they in good faith believe them to be) to their counsel, act in accordance with the advice of such counsel and otherwise proceed in good faith and for a proper purpose.<sup>9</sup>

The Second Circuit has carefully drawn this distinction, holding that clients should be sanctioned only for pleadings signed by their attorneys when the client knowingly misleads counsel or engages in other wrongful conduct. *Calloway v. Marvel Entertainment Group*, 854 F.2d 1452, 1474 (2d Cir. 1988), *rev'd in part on other grounds sub nom., Pavelic & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989). See also, *Greenberg v. Hilton Int'l Co.*, 870 F.2d 926, 939 (2d Cir. 1989); *Cross & Cross Properties v. Everett Allied Co.*, 886 F.2d 497, 505 (2d Cir. 1989). Business Guides submits that the reasoning of the Second Circuit is consistent with both the text of the Rule and with the policies underlying it.<sup>10</sup> The standard set forth by that circuit should

<sup>9</sup> In this context, imposing a different standard on represented parties would not render Rule 11 redundant of inherent power, as respondents suggest. (R.B. 21-22) The amended Rule would still have been necessary to heighten the standard of conduct applicable to attorneys and *pro se* litigants, which is all it does. Including represented parties among those who can be sanctioned under the Rule simply accommodates the situation where, after inquiry prompted by a Rule 11 motion or *sua sponte* consideration, the court finds that a violation was caused by the bad faith conduct of such a party. In such a case, if the lawyer was unaware of that conduct, it would be unjust to sanction him or her. If the lawyer was aware, both should be sanctioned.

<sup>10</sup> Respondents' efforts to disparage (R.B. 25 n.12) and distinguish (R.B. 25-27) Second Circuit precedent are not helpful. The parties may argue as to the relative sophistication of the thought processes of the plaintiff in *Calloway* and Business Guides' Mr. Lambe, or as to the relative involvement of Finley, Kumble below and counsel in *Greenberg*, 870 F.2d 976, but the point of those cases remains the same: Unless

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be adopted by this Court and the contrary view of the court below rejected.<sup>11</sup>

## B. RESPONDENTS' REFERENCE TO OTHER RULES DOES NOT SUPPORT THEIR POSITION

Respondents also attempt to support their so-called "single standard" approach to Rule 11 by referring to other rules. See R.B. 22-23. The point is, at best, seriously overstated. In fact, to the extent that the rules permit parties to be sanctioned for failing to fulfill specific duties, the operative line of responsibility appears to be drawn at good faith, as petitioner urges should be the case here.

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represented parties knowingly present false evidence or otherwise act in bad faith, Rule 11 sanctions against the client are inappropriate.

<sup>11</sup> Even if this Court were to find the certification requirement applicable to represented parties, the result should be the same. At most, all that can be expected (if the certification requirement pertains to represented parties) is that the client conduct an inquiry which he or she genuinely believes to be reasonable. Even in the case of attorneys, one commentator (the Reporter for the Advisory Committee at the time of the 1983 amendments) has suggested that certain elements of the subjective standard remain:

Because some subjective language remains in the amended rule – the signer certifies "to the best of the signer's knowledge, information, and belief" – the amended rule might have been construed to protect attorneys who honestly reach unreasonable conclusions about the factual or legal strength of their cases. . . . [I]t is an overstatement to describe the inquiry element as purely objective because the language of the rule does contain a subjective element.

Miller, *The New Certification Standard Under Rule 11*, 130 F.R.D. 479, 485 (1990). If a subjective standard of inquiry partially survives for attorneys, surely it should survive for represented parties in the event the Rule is interpreted to impose a certification requirement upon them. Under this subjective standard, represented parties should be protected when they endeavor to ascertain the facts but "honestly reach unreasonable conclusions." *Id.*

It is, perhaps, useful to begin with the obvious. Different rules exist for different purposes and, thus, have their own respective structures, including the circumstances and nature of the punishment for failure to comply. For example, the discovery rules impose certain specific obligations directly upon clients (*e.g.*, to appear for deposition or answer interrogatories). Failure to appear at a deposition is specifically governed by Rule 37(d) which permits (but does not require) the imposition of sanctions, unless the failure (which is quite unlikely to be a result of inadvertent conduct) is "substantially justified" or there are "other circumstances" that "make an award of expenses unjust." Similarly, giving false answers to interrogatories (or at a deposition, for that matter) is punishable as perjury (*see* P.B. notes 34-36 and accompanying text) since such responses must be made "under oath." Fed. R. Civ. P. 33(a).

Rules 16 and 26, referred to by respondents (at R.B. 22-23), are more closely related in structure to Rule 11 (in fact, the operative language of Rule 26(g) is substantially identical). However, nothing in those rules suggests that negligence is a proper basis for imposing sanctions on a client under Rule 11 or Rules 16 or 26. Indeed, the advisory committee notes to the 1983 amendments to Rule 16 assert that sanctions under Rule 16(f) are intended to punish "disobedient or recalcitrant" counsel and/or clients. 97 F.R.D. at 213. Similarly, the notes to the 1983 revision of Rule 26 speak of a purpose to deter "those who might *be tempted*" to breach their discovery obligations. *Id.* at 220 (emphasis added). That language, again, suggests a concern with purposeful, rather than inadvertent, failure. *See also* note 3, *supra*.<sup>12</sup>

<sup>12</sup> Rule 37, also referenced by respondents, does permit sanctions to be imposed for a "failure" to make discovery, with questions of "wilfulness" being relevant to the "selection of sanctions, if any, to be imposed." *See*, Fed. R. Civ. P. 37 Advisory Committee Note (citing *Societe Internationale v. Rogers*, 357 U.S. 197, 208 (1958)). That fact scarcely aids

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Finally, Rule 56 – which is one rule that is directly concerned with the assertion of facts *by a party* – expressly limits the imposition of sanctions to summary judgment affidavits "presented in bad faith or solely for the purpose of delay." Fed. R. Civ. P. 56(g). That is, of course, essentially the standard advocated here by petitioner. While we, of course, acknowledge that Rule 56, too, has a specific purpose that is not identical with the purposes of Rule 11, recognition that a client's presentation of false facts may only be punished if done in bad faith or for an improper purpose is far more persuasive than the "other rules" relied upon (for the most part, mistakenly) by respondents.<sup>13</sup>

### C. APPLICATION OF A GOOD FAITH STANDARD TO REPRESENTED PARTIES IS CONSISTENT WITH SOUND POLICY CONSIDERATIONS

Petitioner's opening brief discussed three policy considerations: achieving a proper balance between the goals of deterring undesirable conduct and chilling legitimate claims; encouraging the participation of all relevant actors in the litigation process and thereby more readily arriving at the truth; and furthering judicial economy. Each of these

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respondents' cause here. Unlike Rule 11, the type of "sanctions" specified by Rule 37 are largely remedial, rather than punitive. For example, the Rule permits an order that certain matters (that have been the subject of a disobeyed discovery order) "shall be taken as established." Rule 37(b)(2)(A). While the court also has the discretionary power under Rule 37 to impose monetary sanctions, as under Rule 11, that is precisely the situation in which wilfulness *vel non* presumably would be pertinent to the court's judgment as to whether such sanctions were appropriate.

<sup>13</sup> In fact, we suggest that there is a substantial question whether Rule 11 should apply at all to the Lambe declaration in light of the specific provisions governing affidavits in Rule 56(g). While the Lambe declaration was submitted in support of a motion for an injunction rather than a motion for summary judgment, it would appear anomalous if Business Guides could be sanctioned for non-wilful misconduct based on that alone. *See also* note 3, *supra*.

considerations is consistent with the conclusion that Rule 11 should not be employed to sanction a client's good faith, albeit mistaken, beliefs or actions. Respondents appear to acknowledge the pertinence of these policies but argue that a good faith standard will not further them. Respondents' arguments, however, are premised upon a misunderstanding of both the purpose of the 1983 amendments to Rule 11 and the Rule's practical application.

First, respondents' brief ignores the fact that the primary focus of amended Rule 11 is the attorney, not the client. Indeed, but for the case below, virtually every case cited by respondents deals with the application of the Rule to attorneys. The Rule simply is not directed, in the first instance, at represented parties. See, e.g., American Judicature Society, *Rule 11 in Transition, The Report of the Third Circuit Task Force on Federal Rule of Civil Procedure 11* 30-31 (Burbank, Reporter 1989) (hereafter "Third Cir. Rpt.") (presumption that Rule will be applied to attorneys); Miller, *The New Certification Standard Under Rule 11*, 130 F.R.D. 479, 481 (1990). Here, that approach was turned on its head. Instead of directing the Rule 11 certification inquiry to counsel, the inquiry was misdirected to the client,<sup>14</sup> which relied in good faith upon its counsel in proceeding with the contemplated infringement action. (J.A. 196-99)<sup>15</sup>

<sup>14</sup> Respondents ostensibly withdrew their Rule 11 motion against the lawyers because the Finley Kumble law firm had filed for bankruptcy. (Pet. App. 28a) However, Rule 11 sanctions should have been imposed, if at all, upon the individual attorney who signed the offending complaint and TRO papers, not the firm. *Pavelic & LeFlore v. Marvel Entertainment Group*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 456 (1989). As that attorney had not personally filed a bankruptcy petition, there was no procedural impediment to the consideration of Rule 11 sanctions against counsel.

<sup>15</sup> Sanctioning Business Guides for the unknowing errors in Mr. Lambe's declaration presents an additional problem of fair notice. On its face, Mr. Lambe's declaration was executed under "penalty of perjury." Accordingly, Mr. Lambe was deemed to have notice that his declaration would be held to that standard. Mr. Lambe, however, had no notice that

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Second, respondents' argument that application of a good faith standard to represented parties but not to attorneys somehow will be more complicated, time consuming and invasive of the attorney-client relationship mistakes, once again, the proper province of the Rule. As we have stated, the certification requirement is imposed upon attorneys (and *pro se* parties), not clients. Thus, it is only in the unusual case (i.e., the presentation of knowingly false evidence or other knowingly wrongful conduct) where the client would be implicated. And, even under that scenario, the consideration of whether or not the client, in fact, acted in good faith certainly is no more complicated than consideration of whether the client acted in a manner objectively unreasonable in light of the myriad of factors which the Ninth Circuit test would deem relevant.<sup>16</sup> Indeed, it is inevitably more complicated if two people or entities (lawyer and

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his declaration would be held to a "reasonable inquiry" standard under Rule 11. Indeed, as we have argued, the Rule provides no indication whatsoever as to when represented parties are subject to sanction. Cf. *Link v. Wabash Railroad*, 370 U.S. 626 (1962). While a party surely cannot complain that it had no fair notice that it must act in good faith, holding the client to a higher standard without notice is problematic and raises due process concerns. See, Third Cir. Rpt. at 32. The concern about fair notice in fact informed the advisory committee's decision to reject the suggestion that all sanctions provisions be merged into a single rule. The committee reasoned that for lawyers not "specializing in federal procedure or a member of a bar association committee devoted to federal practice," repetition and cross-referencing would provide valuable notice of the sanctions standards. Memorandum from Walter R. Mansfield to Members of the Advisory Committee on Civil Rules, *Analysis Of Comments Re: Committee's Proposed Amendments to Rules 7 and 11*, at para. 7 (dated December 21, 1981) (hereafter "Mansfield Memo") (on file at the National Archives). The same considerations would seem doubly true for laypersons, who can only be expected to conform to those requirements about which they have clear notice.

<sup>16</sup> Respondents' argument that Business Guides' position creates an unworkable "double standard" (R.B. 20-22) is curious in light of respondents' (and the Ninth Circuit's) acknowledgement that the proffered objective standard itself would vary as between lawyer and client. (R.B. 24-25; Pet. App. 18a) The good faith test thus presents no more of a

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client), rather than one, are routinely required to defend against a sanction request. Not only do the extensive hearings held in this case demonstrate the point, so also does the extensive inquiry necessary to answer the questions relevant to the Court of Appeal's "sliding scale" version of the "objective" standard, which would require trial judges to consider "all appropriate and relevant variables." (R.B. 24) Petitioner submits that such involved proceedings are at least as likely as a "subjective test" to run afoul of this Court's recent admonition that Rule 11 "must be read in light of concerns that it will spawn satellite litigation . . . ." *Cooter & Gell v. Hartmarx Corp.*, \_\_\_ U.S. \_\_\_, 110 S. Ct. 2447, 2454 (1990).<sup>17</sup>

Respondents' arguments about the possible effect of a subjective standard upon the attorney-client privilege also are misdirected. It is the possibility of sanctioning the client under any standard that triggers the concern. Third Cir. Rpt. at pp. 41-43, 87-88.<sup>18</sup> Indeed, it was this concern, among others, that

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double standard than would application of the objective standard and, moreover, comports both with the textual requirements of the Rule and with its underlying policies.

<sup>17</sup> In fact, the advisory committee appears to be concerned about satellite litigation even in the context of application of the objective standard to attorneys. The advisory committee recently has issued a call for written comments on Rule 11. The call notes that, along with over 1000 reported decisions on Rule 11, "[t]here is a substantial literature on the subject" and that "[i]n light of all the comment, the Committee has resolved to invite written public comments on the operation of the sanctions rules." One question to which responses are invited is: "Has the financial cost in satellite litigation resulting from the imposition of sanctions perhaps exceeded the benefits resulting from any increased tendency of lawyers to 'stop and think?'" Committee on Rules of Practice and Procedure of the Judicial Conference of the United States, *Call for Written Comments on Rule 11 of the Federal Rules of Civil Procedure and Related Rules 1-3* (August, 1990).

<sup>18</sup> If anything, this concern is less significant under a bad faith test since the attorney-client relationship already has been compromised. As noted by the Third Circuit Task Force:

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prompted the Third Circuit Task Force to recommend a presumption that sanctions be imposed only on the lawyer. *Id.* at 30-31, 41-43, 88. Due to concerns about routinely invading the attorney-client relationship and privilege, the Task Force recommended that courts should "avoid, except in rare, egregious cases, inquiring about the relative responsibility of lawyer and client for a Rule 11 violation." *Id.* at 31.

#### D. RULE 11, AS INTERPRETED BY THE COURT BELOW, VIOLATES THE RULES ENABLING ACT

In light of respondents' essential disregard of the issue, we revisit the Rules Enabling Act only briefly. Respondent's sole rejoinder seems to be that because fee-shifting is not mandated by Rule 11, the teachings of *Alyeska Pipeline Serv. Co. v. Wilderness Soc'y*, 421 U.S. 240 (1975), are not pertinent. But petitioner did not suggest that the mandatory nature of the sanction is dispositive of the issue. See P.B. 40-48.<sup>19</sup> Rather, it is the problem of a

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If the client has lied to the lawyer, the relationship has already been ruptured, and the costs of separate representation and an evidentiary hearing (when necessary) in the sanctioning process are unavoidable. If the problem is rather that the lawyer has been too lazy to investigate the client's story or unwilling to risk the loss of business, leaving the matter of re-allocation (if permitted) to the lawyer and client seems not only appropriate but, as a means to discourage the latter attitude, highly desirable. According to this view, re-allocation of a (monetary) sanction from the lawyer to the client should be forbidden when, as in most cases of inadequate legal inquiry, the lawyer's paramount responsibility is clear. Otherwise, except in rare and egregious cases, the court should not inquire.

Third Cir. Rpt. at p. 42.

<sup>19</sup> Indeed, the court of appeals in *Alyeska* had held that fee-shifting was permissible (not mandatory) under a private attorney general concept. 421 U.S. at 245-46. This Court rejected that conclusion, holding that, absent statutory authority, fee-shifting (regardless of whether it is mandatory or discretionary) is impermissible as contrary to the American Rule. *Id.* at 247.

procedural rule being interpreted to alter substantive laws and to reallocate the burdens of litigation which creates the potential problem. As one commentator has stated in reference to amended Rule 11: "The fact is that, at least in recent years, the rulemakers have evidenced a shocking ignorance of, or disregard for, statutory law." Burbank, *Hold the Corks: A Comment on Paul Carrington's "Substance" and "Procedure" in the Rules Enabling Act*, 1989 Duke L.J. 1012, 1041. While imposing monetary sanctions upon counsel may be justified by the judiciary's plenary control over its officers (see *Theard v. United States*, 354 U.S. 278, 281 (1957); Wright and Miller, *Federal Practice and Procedure*, Civil 2d § 1332 (1990)), permitting such a sanction upon litigants in the absence of bad faith, goes beyond the courts' inherent powers (*Roadway Express, Inc. v. Piper*, 447 U.S. 752, 765-66 (1980); *NASCO, Inc. v. Calcasieu Television and Radio, Inc.*, 894 F.2d 696 (5th Cir.), cert. granted sub nom., *Chambers v. NASCO, Inc.*, 1990 WL 119996 (Oct. 1, 1990)), and thus is not readily reconcilable with the limitations imposed by 28 U.S.C. § 2072 and a proper concern for separation of powers. This important problem may and should be avoided by a construction of the Rule which is consistent with the judiciary's inherent powers. Cf. *United States v. Clark*, 445 U.S. 23, 27 (1980).

### III. CONCLUSION

For the foregoing reasons, and for the reasons stated in petitioner's opening brief, the decision below should be reversed.

Respectfully submitted,

STEPHEN V. BOMSE\*  
 STEPHEN N. GOLDBERG  
 JOSHUA R. FLOUM  
 HELLER, EHRLMAN, WHITE  
 & McAULIFFE  
 333 Bush Street  
 San Francisco, CA 94104-2878  
 Telephone (415) 772-6000  
*Attorneys for Petitioner*

\*Counsel of Record

Dated: October 23, 1990

(3)

No. 89-1500

Supreme Court, U.S.  
**FILED**

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JOSEPH F. SPANIOLO, JR.  
CLERK

**In The  
Supreme Court of the United States  
October Term, 1990**

**BUSINESS GUIDES, INC.,**

*Petitioner,*

**v.**

**CHROMATIC COMMUNICATIONS ENTERPRISES, INC. ;  
and MICHAEL SHIPP,**

*Respondents*

**ON WRIT OF CERTIORARI TO THE UNITED STATES  
COURT OF APPEALS FOR THE NINTH CIRCUIT**

**BRIEF *AMICUS CURIAE* OF PUBLIC CITIZEN  
URGING REVERSAL**

Alan B. Morrison  
(Counsel of Record)  
Public Citizen Litigation Group  
2000 P Street, NW, Suite 700  
Washington, D.C. 20036  
(202) 785-3704

Attorney for *Amicus Curiae*  
Public Citizen

CASILLAS PRESS, INC., 1717 K STREET, N.W., WASHINGTON, D.C. 20006

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**QUESTION PRESENTED**

May a district court utilize Rule 11 of the Federal Rules of Civil Procedure to require a party that was found to have acted negligently, but not in bad faith, to pay the attorneys' fees of the other side, in light of the prohibition in the Rules Enabling Act that precludes this Court from issuing rules that "abridge, enlarge, or modify any substantive right?"

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In The  
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ON WRIT OF CERTIORARI TO THE UNITED STATES  
COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF *AMICUS CURIAE* OF PUBLIC CITIZEN  
URGING REVERSAL

**INTEREST OF *AMICUS CURIAE***

This brief is filed with the consents of the parties, which are being filed with this brief. Public Citizen is a non-profit organization with approximately 95,000 members throughout the United States. It actively litigates in federal courts as a party, and its attorneys provide no-cost representation to both individuals and organizations who generally cannot afford to proceed without the legal assistance which is provided by Public Citizen's attorneys. Although Public Citizen has had virtually no cases of its own in which sanctions were sought against itself, its clients, or its attorneys, its attorneys have

been called upon to represent a number of other individuals and organizations against whom sanctions have been sought or imposed. Public Citizen is interested in this case because fee-shifting of the sort devised by the lower courts will substantially discourage individuals and organizations from seeking to vindicate their rights in the federal courts. In our view the question of whether fee-shifting should be permitted is one that Congress has reserved to itself, and the merits of that issue should be decided in the legislative arena, rather than through the rulemaking process.

### STATEMENT OF THE CASE

This is an action under the Federal Copyright Act, 17 U.S.C. § 501, based on a claim that respondents had copied petitioner's guide to computer products and services. After the complaint and a request for a temporary restraining order were filed, the district court, and eventually petitioner, discovered that the method used by petitioner to determine whether respondents and others were copying its guide was flawed.

The explanation for this error is set forth in detail in the briefs of the parties and will not be repeated. The essential points are that the error was unintentional, as the trier of fact specifically found, and that petitioner was merely negligent in the manner in which it compiled and presented its evidence to the district court. There was no finding, contrary to respondents' suggestion in its Opposition to Certiorari at 2, that there was perjury in the sense that petitioner's employees knowingly made false statements of fact. When petitioner's mistaken factual assertions were discovered, the district court denied the motion for the temporary restraining order and initiated a process that eventually led to monetary sanctions of \$13,865.66 being imposed against petitioner under Rule 11 of the Federal Rules of Civil Procedure. That sum represented

the entire amount of respondents' attorneys' fees for opposing the temporary restraining order in the district court. In addition, the court ordered the case dismissed as a further sanction for violating Rule 11. While sanctions were also originally sought against the law firm representing petitioner, but not the lawyer who had actually signed the pleadings, respondents withdrew that part of their motion after the law firm went into bankruptcy.

Despite the absence of any finding of bad faith on the part of petitioner, the district court awarded attorneys' fees against petitioner, applying the same standard of adequate investigation that is applied when Rule 11 sanctions are sought against a member of the Bar. The court of appeals affirmed, relying principally on what it believed to be the clear language of Rule 11. Although the Rule draws no explicit distinction between the standard by which attorneys are to be judged, and the standard that applies to their clients, it also imposes a duty only on the person who signs a pleading which is rarely the client.

However, the court of appeals reversed the portion of the sanctions order based on oral representations in the district court as outside the scope of Rule 11. Because it did "not know the impact this will have on the monetary award or dismissal of the action," the court vacated the sanctions order and remanded the case to allow the district court to reconsider its choice of sanctions in light of the rulings of the court of appeals. On remand, the district court *sua sponte* affirmed the sanctions order in its entirety, including the order of dismissal. In the meantime, the petition for writ of certiorari was filed in this case with respect to the attorneys' fees sanctions issue. However, no appeal was filed from the final order of dismissal, and therefore it appears that the validity of that order is not directly before this Court.

## SUMMARY OF ARGUMENT

The district court ordered petitioner to pay more than \$13,000 in legal fees incurred by respondents in defending against petitioner's request for a temporary restraining order in this copyright action. It did not find that petitioner had acted in bad faith or with an improper purpose, but only that its officers and employees were negligent in the manner in which they gathered evidence to support its infringement claim. In awarding fees, the court did not rely on any statute, but solely on Rule 11 of the Federal Rules of Civil Procedure.

The question presented is whether a court may impose fee-shifting against a client under Rule 11 in these circumstances. For the reasons set forth in petitioner's brief, we agree that, properly construed, Rule 11 does not allow for fee-shifting (or any other similar sanctions) against a client that is represented by counsel under the facts of this case. In this brief, *amicus* offers another, entirely separate reason to support reversal: to construe Rule 11 as the Ninth Circuit did would raise very serious questions under the Rules Enabling Act, 28 U.S.C. § 2072, because provisions for fee-shifting involve substantive rights which may not be abridged, enlarged, or modified by the Federal Rules.

Under the Court's decision in *Alyeska Pipeline Services Co. v. Wilderness Society*, 421 U.S. 240 (1975), the question of whether fee-shifting should be allowed, including which parties may benefit from it, and on what terms and conditions, is one for Congress and not the courts. Whether to alter the burdens of litigation from the usual American Rule is precisely the kind of policy decision that Congress has reserved to itself because fee-shifting affects not merely the manner in which a case is litigated, but is intended to give an advantage to one side or the other in the litigation process itself. To construe Rule 11 as authorizing the courts to create new rules

for fee-shifting would be to allow the judicial branch to usurp Congress' role, a particularly problematic result here because Congress has already struck its own balance under the Copyright Act when it decided to provide for a limited form of fee-shifting in 17 U.S.C. § 505. If the ruling below is upheld, it will, in effect, mean that Rule 11 — a procedural rule — can alter a substantive statute, precisely what section 2072 forbids.

## ARGUMENT

### IF RULE 11 WERE READ TO AUTHORIZE FEE-SHIFTING IN THIS CASE, IT WOULD VIOLATE THE RULES ENABLING ACT.

The district court relied on its authority to impose sanctions under Rule 11, and there is no doubt that it ordered the petitioner, the client, to pay all of the attorneys' fees and expenses of respondents, the defendants. It did not find bad faith on the part of petitioner, only negligence on the part of its employees. If Rule 11 is read to authorize such fee-shifting, then the Rule is invalid because it would "abridge, enlarge, or modify," the "substantive rights" of the parties, in contravention of the Rules Enabling Act, 28 U.S.C. § 2072. To be sure, the line between substance and procedure varies from context to context, *Sun Oil Co. v. Wortman*, 486 U.S. 717, 726 (1988), and "might sometimes prove elusive." *Miller v. Florida*, 482 U.S. 423, 433 (1987). But this Court's decision in *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U.S. 240 (1975) ("*Alyeska*"), makes it clear that decisions about whether to award attorneys' fees, to which party or parties, and under what circumstances, are matters of substantive policy that are the sole province of the legislature — in this case Congress, because the provision of attorneys' fees is an integral part of the substantive rights that are at issue in this case under the federal copyright laws.

At issue in *Alyeska* was the authority of the federal courts to award attorneys' fees to private plaintiffs in an environmental action arising under federal laws, on the theory that they were acting as private attorneys general. In his opinion for seven members of the Court, Justice White began with a recognition that, under the American Rule, each side ordinarily bears its own attorneys' fees. Reviewing the history of both federal statutes on fee-shifting and the common law, the opinion concluded that the only judicially recognized exceptions were for cases producing a common fund, cases involving a common benefit to a small or discrete group, and cases involving bad faith, none of which arguably applied there. The Court did not dispute that there were sound policy reasons to support a private attorney general exception to the American Rule, but it declined to adopt such an exception, finding that a task for Congress.

In the view of *amicus*, *Alyeska* virtually controls the outcome of this case. Admittedly, *Alyeska* involved a case where a party asked the courts to create the fee-shifting in their adjudicative capacity, whereas here this Court was acting in its capacity as a rulemaker when it promulgated Rule 11. However, those differences are immaterial because the reasons why this Court refused to create a private attorney general exception in *Alyeska* apply fully to the creation of a fee-shifting exception through Rule 11.

Thus, this Court began its discussion in *Alyeska* by noting that it was being asked to "reallocate the burdens of litigation" and to do so "without legislative guidance," 421 U.S. at 247, precisely what respondents claim is authorized under Rule 11 here. The Court subsequently observed that Congress has chosen to provide for fee-shifting under a number of different federal statutes, although not the ones at issue in *Alyeska*. *Id.* at 260. These statutes are, the Court noted, by no means identical, since some make awards mandatory

(antitrust, 15 U.S.C. § 15), others make fee-shifting the general rule (civil rights, 42 U.S.C. § 2000a-3(b) and § 2000e-5(k)), and others make fee-shifting available in exceptional cases (patents, 35 U.S.C. § 285). *Id.* at 261. Furthermore, the Court noted, some statutes allow for recovery by prevailing parties, some are limited to prevailing plaintiffs, and some are for prevailing parties, but with different standards for plaintiffs and defendants. *Id.* at 263-64. Thus, as the Court observed, "[u]nder this scheme of things, it is apparent that the circumstances under which attorneys' fees are to be awarded and the range of discretion of the courts in making those awards are matters for Congress to determine." *Id.* at 262.

Beyond the difficulties in line drawing, and in finding an appropriate set of guidelines under each federal statute, the Court refused to award fees because that "would make major inroads on a policy matter that Congress has reserved for itself." *Id.* at 269. In each of these situations, the Court concluded, "it is not for us to invade the legislative province by redistributing litigation costs in the manner suggested by respondents and followed by the Court of Appeals." *Id.* at 271. Indeed, just last term, the Court in *Kaiser Aluminum & Chem. Co. v. Bonjorno*, 110 S. Ct. 1570, 1576 (1990), relying on *Alyeska*, reiterated that "the allocation of the costs accruing from litigation is a matter for the legislature, not the courts." And, as Justice Brennan succinctly stated in his dissent in *Marek v. Chesney*, 473 U.S. 1, 35 (1984), the "right to attorney's fees is 'substantive' under any reasonable definition of that term."

All of the policy reasons that compelled this Court in *Alyeska* to leave to Congress the job of deciding when and under what circumstances fee-shifting should be allowed apply equally whether the Court is acting in its adjudicative or rulemaking capacity. Accordingly, for the reasons given in *Alyeska*, Rule 11 should be construed, as petitioner urges, not to allow fee-

shifting based on negligence, contrary to the ruling of the courts below. *See also Gaiardo v. Ethyl Corp.*, 835 F.2d 479, 483 (3rd Cir. 1987) (Rule 11 "should not be viewed as a general fee-shifting device," which was intended to effect "a major change in the American Rule").

The foregoing analysis applies to all cases in federal courts, but there is another reason why Rule 11 cannot be read to allow fee-shifting here. This is a copyright case, and Congress has already undertaken the very balancing on fee-shifting which Rule 11 is alleged to cover, when it included a special attorneys' fees provision for copyright cases in 17 U.S.C. § 505. Indeed, the predecessor of the current provision was specifically cited by this Court in note 33 in *Alyeska*. Under the balance struck by Congress, the person holding the copyright is generally, but not always, awarded attorneys' fees, whereas the alleged infringer is sometimes, but rarely, awarded them, *see, e.g., McCulloch v. Albert E. Price, Inc.*, 823 F.2d 316, 323 (9th Cir. 1987); *Diamond v. Am-Law Publishing Corp.*, 745 F.2d 142, 148 (2d Cir. 1984), although some courts have adopted a more even-handed approach. *See, e.g., Lieb v. Topstone Industries, Inc.*, 778 F.2d 151, 155 (3rd Cir. 1986). Yet, according to respondents and the lower courts here, trial judges have the power under Rule 11 to come up with a different balance, under which copyright holders could be made to pay fees under circumstances in which they presently would not have to pay them under the Copyright Act.<sup>1</sup>

In a recent case, the Ninth Circuit overturned a district court that had imposed a sanction of attorneys' fees, albeit not under

<sup>1</sup>While there has been no determination of respondents' right to receive attorneys' fees under the Copyright Act, it is a fair inference that they do not believe that they are entitled to such fees since they did not seek fees under that Act below. Whether, in fact, section 505 authorizes fees in this case is not before the Court since it was never raised below. It is also an issue on which *amicus* takes no position.

Rule 11, against an attorney who was negligent in not obtaining admission to the district court in which his case was pending. *Zambrano v. City of Tustin*, 885 F.2d 1473 (1989). In so ruling, the Court followed precisely the approach advocated by *amicus* here, *id.* at 1481-82, but then attempted to distinguish Rule 11 in a footnote (n.26), on the ground that this Court was required to send the proposed Rule to Congress for six months before it became effective. Although we agree with the basic analysis in *Zambrano*, we believe that the footnote is fundamentally mistaken because it is directly contrary to *INS v. Chadha*, 462 U.S. 919 (1983). In *Chadha*, this Court specifically distinguished the report and wait provisions of the Federal Rules from the legislative veto set aside there, finding the former to be permissible, because it altered nothing without a duly approved statute, whereas the veto alone altered the rights of affected persons. *Id.* at 935 n.9. Since Rule 11, like almost all Federal Rules, became effective simply by the passage of time, the distinction offered by the Ninth Circuit cannot stand, but its basic point regarding the impact of *Alyeska* further supports our analysis.

Although this case arises under federal, rather than state law, the result would be the same even if this were a state law case, albeit for an additional reason. Thus, the same limitations on substantive rules apply under section 2072 whether the substantive law is state or federal, but another statute, the Rules of Decision Act, 28 U.S.C. § 1652, imposes a further limit on the power of federal courts to impose their policy judgments on litigants who appear before them when the substantive law is state, not federal. In fact, in note 31 at page 258 in *Alyeska*, this Court commented on the possible difference between federal and state law regarding attorneys' fees, but appeared to conclude that there was none because in both situations fee-shifting "reflects a substantive policy of the state" that federal courts are not free to alter, *citing*

J. Moore, *Federal Practice and Procedure*, ¶ 54.77, pp. 1712-1713 (2d Ed. 1974).

This analysis might be thought to call into question the validity of other provisions, such as Rule 37, which allow attorneys' fees to be imposed against clients. We do not believe that our analysis requires that result for several reasons. First, those Rules do not allow for general fee-shifting of the entire cost of litigation, but only permit it for fees resulting from an isolated event or a series of related events that are part of a larger litigation. Second, and perhaps most significantly, the basis for imposing fees in those circumstances is conduct very similar to, if not identical with, conduct found to be vexatious or in bad faith, for which there is a long recognized exception to the American Rule and for which no separate congressional authorization is needed. The principal difference between the bad faith exception recognized in *Alyeska* and Rule 37 is that, instead of providing for full fee-shifting for the entire case, Rule 37 allows fee-shifting only for particular discrete portions of the case. Indeed, it is entirely possible for one party to prevail on a Rule 37 sanctions motion, receive a modest fee award, then lose the case on the merits, and, if fee-shifting is involved, have to pay fees for the remainder of the lawsuit to the party that was assessed fees under Rule 37.

In any event, the only issue that this Court must decide is whether fee-shifting is allowable under Rule 11 when the payment will come from a client represented by an attorney, and when no bad faith is involved. If the Court agrees that fee-shifting is not permitted against represented parties based on negligence alone, it might be possible to recover the fees from that party's attorneys, at least where such relief is sought in a timely manner and not abandoned, as happened here. We recognize, as the Ninth Circuit did in *Zambran*, that even that kind of fee-shifting may be forbidden, although the special

relationship between a court and the members of its Bar may allow greater leeway than with clients. On the other hand, in 28 U.S.C. § 1927, Congress has legislated in the area of imposing fees and costs on attorneys, and there is some basis to believe that it did not intend to go beyond the limited circumstances provided there in allowing fee-shifting. See Burbank, *Sanctions in the Proposed Amendments to the Federal Rules of Civil Procedure: Some Questions About Power*, 11 Hofstra L. Rev. 997 (1983). But whatever the outcome there, the case for not allowing fee-shifting between clients under Rule 11 is so clearly dictated by the proper application of *Alyeska* that the Court should not back away from forbidding such fee-shifting, simply because the result is less clear where fees are sought from the attorney.

Finally, while we are reluctant to rely too heavily on legislative history of a Congress subsequent to the one that passed the version of the Rules Enabling Act that was in place in 1983 when amended Rule 11 became effective, we believe that there is substantial, confirmatory evidence that Congress clearly does not intend for this Court, in its rulemaking capacity, to write fee-shifting rules. For example, Congress has expressed concern over proposed amendments to Rule 68, which requires a prevailing plaintiff who has declined an offer of settlement less favorable than the ultimate judgment to pay post-offer costs. In 1983, the Civil Rules Advisory Committee sought an even greater incentive for parties to settle by proposing that expenses and attorneys' fees be added to the shifted costs. Representative Robert Kastenmeier, Chairman of the Subcommittee on Courts, Civil Liberties and the Administration of Justice, which is the principal committee in Congress dealing with the rulemaking process, wrote the Civil Rules Committee that such an amendment, if promulgated, "would have crossed the line from procedural to substantive." 130 Cong. Rec. 28,164 (1984).

In 1984, the Advisory Committee modified its Rule 68 proposal by labeling this fee-shifting arrangement "sanctions." But Representative Kastenmeier made it clear that he was still uneasy about the changes. In a letter to Judge Frank Johnson, the new Chairman of the Civil Rules Committee, he again expressed "reservations about whether any of the proposed modifications should be statutory or through the rules process." See Burbank, *Proposals To Amend Rule 68 — Time To Abandon Ship*, 19 U. Mich. J.L. Ref. 425, 440 (1986). He concluded that "my tentative feeling is that legislation to modify Rule 68 should be introduced, thereby squarely placing all issues on the legislative platter." *Id.* The full House Judiciary Committee supported this position, stating that "[w]hatever the rulemaking power with respect to sanctions for litigation conduct generally, that power does not extend to the alteration of a scheme of remedial rights fashioned by Congress as essential to the enforcement of substantive law. 42 U.S.C. 1988 contains one such scheme." H.R. Rep. No. 422, 99th Cong., 1st Sess. 13 (1985).

Congress further affirmed its view that attorneys' fees matters are to be left to the legislature, not to the rulemaking process, when it amended the Rules Enabling Act in 1988. Representative Kastenmeier, in introducing an earlier version of the legislation, had stated that, in the wake of *Alyeska*, "Congress conferred a substantive right by enacting the Civil Rights Attorney Fee Award Act." 130 Cong. Rec. 28,165 (1984). A later House Judiciary Committee Report commented that the legislation did not grant the Supreme Court power "to promulgate rules regarding matters, such as limitations and preclusion, that necessarily and obviously define or limit rights under the substantive law." H.R. Rep. No. 422, 99th Cong., 1st Sess. 21 (1985). The report continued: "The protection extends beyond rules of substantive law, narrowly defined, however. At the least, it also prevents the applica-

tion of rules, otherwise valid, where such rules would have the effect of altering existing remedial rights conferred as an integral part of the applicable substantive law scheme, federal or state, such as arrangements for attorney's fees under 42 U.S.C. 1988." *Id.* at 21-22. This report was incorporated by reference in the final House report on the 1988 bill. H.R. Rep. No. 889, 100th Cong., 2d Sess. 29 (1988), *reprinted in* 1988 U.S. Code Cong. & Admin. News 5982, 5989-90.

The Chief Justice also acknowledged the boundaries of the Court's rulemaking powers during the 1988 Rules Enabling Act deliberations. In a letter to Representative Peter Rodino, Chairman of the House Judiciary Committee, Chief Justice Rehnquist assured Congress that the Judicial Conference and its committees were "keenly aware of the special responsibility they have in the rules process and the duty incumbent upon them not to overreach their charter." 134 Cong. Rec. 10,441 (1988). He declared that the advisory committees should be "circumspect in superseding procedural statutes" and that "we will undertake to identify such situations when they arise so that the Congress will have every opportunity to examine these instances on the merits as part of your review." *Id.*

None of these references, standing alone or in combination with the 1988 reenactment of the Rules Enabling Act, would suffice to establish that Rule 11 could not be used as a fee-shifting device, as the lower courts did here. But as confirmatory evidence, showing that Congress agreed with *Alyeska* and the premises that underlay it, this legislative history should reassure the Court that the creation of new fee-shifting exceptions to the American Rule is a matter for Congress (or the states), but not the rulemaking process.

## CONCLUSION

For the forgoing reasons, the Court should construe Rule 11 not to authorize fee-shifting in this case, or in the alternative it should conclude that, if Rule 11 does permit such fee-shifting, it is in violation of the Rules Enabling Act.

Respectfully submitted,

Alan B. Morrison  
(Counsel of Record)\*  
Public Citizen Litigation Group  
2000 P Street, NW Suite 700  
Washington, D.C. 20036  
(202) 785-3704

Attorney for *Amicus Curiae*  
Public Citizen

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